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## WEST EUROPE

### Trend Toward Unity Viewed

92CM0293A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 6, 23 Mar 92 pp 3-6

[Article by Ji Yin (1323 1377): "West Europe in the Multipolarizing World"]

[Text] For many years West Europe's common strategic thinking has been to break through the yoke of the bipolar structure and actively promote the trend of world multipolarization so that it will one day become an independent pole in a multipolar world. With the drastic changes in East Europe and the disintegration of the Soviet Union, the bipolar structure has come to an end, and the world is moving ever faster toward multipolarization. In this historical process, how is the position of West Europe to be redefined?

### East and West Europe Not Yet Ready To Merge Into One

Hasn't the division of Europe come to an end, and why are we talking only about West Europe? To be sure, with the ending of the Yalta arrangement, the artificial line dividing Europe has disappeared. However, the merge of the divided Europe cannot be achieved in a single day.

Although the social systems of the eastern and western parts of Europe are becoming similar and ideological antagonism is tending to disappear, the two remain different in many spheres, even though the differences have changed somewhat in nature and content. With the end of the cold war and the dissolution of the Warsaw Treaty, East and West Europe no longer belong to two different and hostile blocs, and the previous relationship between them no longer exists. However, the economic gap between the two parts of Europe has not been reduced, but has further expanded. East Europe is faced with numerous difficulties in changing its economic systems, and is experiencing continuing serious economic downslides. The West has talked a great deal about aid but has delivered very little. Only 13 percent of promised grants and less than 10 percent of loans have been delivered. It is far too little. The economic gap has become the fundamental difference between the two parts of Europe. From an economic viewpoint, the present relationship between East and West Europe is in essence something like the "south-north relationship." East Europe is looking to West Europe for a way out of its economic difficulties and is seeking to be included in Europe's economic integration, but it is impossible for the economy of the East European countries to be completely integrated with the West European economy anytime soon.

While the economic gap is widening, two trends of development, which form a sharp contrast, also exist in East and West Europe. There is a growing coherence among West European countries, represented mainly by

the European Community, and their economic and political integration is picking up speed. There is a growing centrifugal force among East European countries, represented by the former Soviet Union and Yugoslavia, and vicious rising nationalism and national splittism are pushing East Europe into further unrest, confusion, and disunity. The two opposite trends certainly are not helping to bring the two parts of Europe closer together, but are causing the gap to become wider, greatly increasing the difficulty and complexity of European unity.

In short, at present, East Europe and West Europe are not only divided in geographical terms, but remain two completely dissimilar regions with essential differences. It will take a very long time for the two to merge. Judging by the development trend, West Europe will continue to exist as an economic and political entity for a rather long time to come. Therefore, in the course of the world's multipolarization, West Europe should be treated for what it is: an emerging new pole.

### Growing Strength as an Economic Pole

As early as in the 1970's, West Europe, mainly the EC, began to grow into an economic pole, as a rival to the United States and Japan. In the 1980's, with its progress in economic integration, West Europe further increased its economic strength. Especially since preparations began for the establishment of a unified EC market in 1985, the West European economy has gained a new vigor and vitality. In the second half of the 1980's, the EC's GNP grew at an average annual rate of 3.1 percent, of which an estimated more than one half percentage point was due to stimulation by the planned unified market, and total investment increased by 6 percent in the same period.

Entering the 1990's, the United States' position as the world's greatest economic power is being challenged by West Europe. In 1990, the EC's GNP, calculated according to exchange rates, was \$6,010,000,000,000, surpassing the United States (\$5,391,000,000,000) and Japan (\$2,942,000,000,000); and if calculated according to purchasing power parity, the EC's GNP was \$4,664,000,000,000, slightly under that of the United States (\$5,391,000,000,000). The EC is also the world's largest trading group. Exports totaled \$526 billion [as published] (not including internal trade) in 1990, far exceeding that of the United States (\$393 billion) [as published] and Japan (\$287 billion) [as published]. The EC has the world's largest foreign exchange reserve, \$285 billion [as published] in 1990, more than that of the United States and Japan combined (\$165 billion) [as published]. With growing economic strength, West Europe is gradually emerging from under the United States' economic control. The phenomenon, "when the United States sneezes, West Europe catches cold," is a thing of the past. During the latest U.S. economic recession, West European countries have to varying

degrees felt the impact, but have not simultaneously fallen into an economic crisis engulfing the entire region as in the past.

In the 1990's, West Europe as an economic group will attain a higher level and broader scale of development, which certainly will add impetus to its economic growth and further strengthen its position and role as an economic pole.

The establishment of a great unified market with free movement of goods, capital, people, and services will, internally, effectively promote investment, expand internal trade, and stimulate economic growth and, externally, further increase West Europe's ability to compete with the United States and Japan. According to a more optimistic estimate, in the seven years from the establishment of the great unified market to the end of the century, the EC's economy can possibly grow at an average annual rate of about 5 percent. However, much will depend on such factors as the entire international economic environment in that period, the situation in and around Europe, and the actual progress in West European unity. The implementation of the economic and currency alliance aimed at establishing a European central bank and issuing a single currency no later than 1999 will make the European currency one of the world's three major currencies besides the U.S. dollar and the Japanese yen.

The "European Economic Zone," which will be established simultaneously with the great unified market, means that the four free movements will be extended step by step from the 12 EC countries to the seven countries of the European Free Trade Zone, thus forming the world's largest free trade zone with 380 million consumers and accounting for 43 percent of world trade. That will greatly increase West Europe's economic strength as a whole and enhance its position in the world economic structure.

In the 1990's, there will be a new upsurge in EC expansion. The "European Economic Zone" is actually a transitional step toward the ultimate merging of West Europe's two economic groups into one. Sweden, Austria, and Finland, members of the seven-nation European Free Trade Zone that have applied to join the EC, may very well become formal EC members in the latter part of the 1990's. The EC may also expand to other northwestern European countries. As to countries of East Europe, they do not yet qualify for EC membership, at least not during the 1990's. Some of these countries may follow Poland, Czechoslovakia, and Hungary to become EC associates. The EC's strategy to expand step by step into "three concentric circles" with itself as the core will certainly strengthen its position as an economic pole and as the center of the new European structure.

In contrast, the U.S. economy has been in a recession since 1990 and is still unable to make a strong recovery. The sequelae of the "prosperity by borrowing" of the U.S. economy in the 1980's are having a seriously

adverse effect on its future development. According to a more pessimistic forecast by U.S. economists, the 1990's will be a decade of the slowest economic growth since the great depression of the 1930's. The North America Free Trade Zone, which includes the United States, the dominating member, Canada, and Mexico, has started late, developed slowly, remained at a low level of integration, and will not be of great help in the near future.

Relatively the economic strength of the United States will decline and that of Europe will grow in the 1990's. The seating arrangement in the U.S.-Europe-Japan triangle will be rearranged. It is possible that West Europe, mainly the EC, will overtake the United States economically, move to first place in the triangle, and play a more powerful role in the world economic structure.

### Transition to the Political Pole

From economic integration to political integration and military integration—this is the three-stage rocket for West European unity. The economic stage has long since soared straight up into the sky, but the political stage has had numerous breakdowns. The plan to form an European Political Union in the 1960's ended up in failure. In the past 20 years, the EC has set up a mechanism for some political cooperation and strived to achieve a coordinated stand on some important international issues. However, the EC has yet to "speak with one voice" on foreign policies regularly and completely. The EC has only won the right to have a say within the framework of the bipolar structure and has not formed an independent economic entity. The "European union treaty," approved by the EC summit conference in Maastricht in December last year and signed on 7 February this year, announced that the 12 member countries will follow a common foreign and security policy in the future and will ultimately pursue a common defense policy. The West European Union will become a part of the EC Political Union, responsible for the formation and implementation of the union's defense policy. This is a qualitative leap in the course of West European unity, indicating that the EC has begun to make the transition toward becoming an independent political pole. It is not only the inevitable outcome of the highly advanced economic integration, but also the need of economic integration to develop onto even higher levels. And the change from the old to the new structure has also effectively accelerated the process of political integration, which has hardly moved for many years. At the same time, the drastic changes in East Europe and the disintegration of the Soviet Union have objectively increased the importance of West Europe in Europe and the world as a whole and has provided a vast space of activities for West Europe to expand eastward. All this indicates that West Europe's position will be further enhanced in Europe and the world as a whole.

However, while West Europe is gaining importance as an economic pole, it still has a long way to go to become a political pole. The realization of a political union will be a long, gradual, and tortuous process. A start has only

just been made with agreement only on principles and general objectives. There will be a lot of disputes and twists and turns on how actually to implement a common foreign policy and security policy. Italy's foreign minister estimated that it may take 20 to 25 more years to achieve a complete political union. As to the establishment of an independent European defense body with the EC and the West European Union as the mainstay, it is an objective which will take even longer to achieve. At least during the 1990's, West Europe still cannot separate completely from NATO and the United States on defense and security. The talks on West Europe's joint defense and some exploratory steps that have been taken are of more political than military significance. In short, it will take more time for West Europe to really become a political pole.

#### Internal and External Restricting Factors

The above-mentioned status and role of West Europe as an economic pole and as a developing political pole are the status and role of West Europe as a whole. However, West Europe's great economic strength is possessed by separate countries and controlled by their different policies. Therefore, West Europe's economic strength cannot be measured simply by adding together the GNP's, total exports, etc. of all these countries. Even such a group as the EC, with its fairly high degree of economic and political integration, is still an association of sovereign states and not a country, and does not constitute a single economic and political entity and pursue a unified policy like the United States and Japan. The EC's member countries not only help but also compete with each other. They have common interests in promoting West European unity, strengthening their competitiveness against the United States and Japan, further enhancing West Europe's position in international affairs, and particularly seeking to establish a new Europe with the EC as the core, but each of them also has its own agenda. There are differences and contradictions particularly among the major member countries like Britain, France, and Germany on such issues as who should assume a dominating role in a united West Europe, who will benefit, and whose intentions should be followed in action? The argument whether it's "Europe's Germany" or "Germany's Europe" is first reflected in the argument whether it's "the EC's Germany" or "Germany's EC." The EC's ability to participate in international affairs as an entity cannot but be restricted by the above-mentioned factors. West Europe is a combination

of numerous national states, which make it a special kind of "pole" with its unique complexity and limitations, as compared with "poles" formed by a single country.

Europe is the most unstable region in the world today. The center of turbulence is in the East half. The West half is still relatively stable at present, and the EC in particular is an important stabilizing factor to the European situation. However, the reference to the "turbulent east" and "stable west" is made only in a specific sense. Fundamentally speaking, as long as the eastern half is in turbulence, the western half will have no peace. In fact, the "European disease," which is a combination of national conflicts, territorial disputes, political crises, economic crises, and social crises, is highly contagious. The intense turbulence in the eastern half of Europe has cast a shadow on Europe's security and stability as a whole and sent a rather strong shock wave to West Europe. At present, the sharpening struggle between different political forces, increasing factors of political instability, rampant extreme-rightist forces, repeating incidents of nationalistic violence, and intensifying national separatist activities in West European countries are all signs of having been affected by the turbulence in East Europe. The waves of refugees and the danger of proliferation and loss of control of nuclear weapons brought by the disintegration of the Soviet Union are also causing fear and anxiety in West Europe. All kinds of problems brought by the turbulence in East Europe have attracted West Europe's major attention, diverted much of its energy, intensified its internal contradictions, and weakened its cohesion and ability to act externally. Yet the turbulence in Europe is just beginning and likely to continue for a long time, even to further intensify. Therefore, Europe's "internal consumption" will have a rather adverse effect on West Europe's position in the future world structure.

Generally speaking, the rise of West Europe as a pole with the EC as its mainstay will have a great impact on the shaping of Europe's future, put a check on the United States' attempt to establish a U.S.-dominated "new world order," and effectively accelerate the world's multipolarization. However, with the rapidly changing world situation and its own growing strength and rising status, the EC, while stepping up the economic competition and political contention with the United States and Japan, is showing an increasing tendency to play power politics elsewhere. This is a new trend which merits attention.

**Learning From Experience Urged To Find Path***HK1805015592 Beijing RENMIN RIBAO in Chinese  
4 May 92 p 5*

["Study History, Usher in Tomorrow" column by Jin Chongji (6855 0394 0644): "Study Modern, Contemporary Chinese History, Forge Ahead While Constantly Making Explorations"]

[Text] Constantly making explorations for forging ahead is a major characteristic of the Chinese people's experience loaded with hardships over the past more than 100 years, and is also a crucial point for correctly understand many major issues in China's modern and contemporary history. Without giving consideration to the important characteristic of "explorations," one will find it very difficult to clearly explain many things.

Why were such explorations unavoidable? The reason is: In modern and contemporary history, Chinese society was situated amid drastic major changes; and things that the Chinese people faced were always so acute, urgent, and complicated. On the other hand, we used to lack experience in handling the new problems that arose one after another. From the beginning of modern history, in order to seek the way to rescue the nation and the people, a multitude of progressive figures in China indomitably made explorations and advances in the darkness with amazing willpower. They made various trials, including such nationwide movements as the 1911 Revolution, but all of these efforts failed in the end. The founding of the CPC marked the beginning of a new epoch. Under the guidance of Marxism, the party charted the course of advance for the Chinese people. However, the path remained full of twists and turns.

China was originally a large Oriental agricultural country different from all the countries in Europe. It had a large population and a backward economy, with development in various localities being uneven. The strength of the proletariat in China was modest. To carry out revolution and construction in such a country, one would certainly encounter numerous knotty new questions for which the solutions could not be found readily in books or in the experience of other nations. In order to find the proper way to combine the universal truth of Marxism with the concrete practice in China and to beat a path of their own, the Chinese people could only rely on their own efforts to make bold explorations and gradually accumulate experience in light of China's specific conditions.

In the course of exploration, it was natural that there was no perfect a priori-based program before action was taken, and it was impossible to make everything clear and gain 100 percent assurance before action was taken. In doing many things, one might only find the correct overall orientation when one acted bravely to make advances. When making advances, one continuously tried various things. Unavoidably, there would be risks, twists and turns, and even serious setbacks. Of course, if better work was done and if one was more open-minded and careful, errors might be reduced to the minimum or

be corrected more quickly. However, it would be impossible to completely avoid errors. People can learn what to do and how to do it only by continuously summing up positive and negative experience in the course of practice, and solving problems and correcting errors after discovering them. If one does not dare to undertake any risk in making explorations, one will never gain any experience and will never train people with learning and ability. This is something like learning swimming. If one does not dare to step into the water and fears being choked by the water, one will never master the skill of swimming.

This was the case in the Democratic Revolution led by the CPC. The CPC immediately demonstrated its great vitality as soon as it was founded. In the first few years, the small party successfully created a great situation in a short period of time. This had not been seen before in China's history. However, in the course of advances, the party suffered two major failures, which almost completely ruined the revolution. The first was the failure of the Great Revolution in 1927, and was mainly caused by rightism. The second was the failure of the fifth campaign against the enemy's "encirclement and suppression" in 1934, and was mainly caused by "leftism." After the two major setbacks, the revolution was bogged down at a low ebb, and many people thought that the CPC would never be able to succeed. The facts were utterly different. The party accumulated rich experience from the two failures, and was tempered into a more mature and firmer body. It finally found the correct path to win victory for China's Democratic Revolution. This was in keeping with the objective law that governs the development of things.

After seizing state power in the whole country, the party was faced with a new question of how to build socialism in such a large undeveloped country as China. The CPC had united the entire people throughout the country to win a great victory that attracted worldwide attention, but as it could not copy a ready model from other nations and could only make bold explorations, it again committed some serious mistakes: On the one hand, it was unrealistically overanxious for quick achievements in economic construction; on the other hand, it improperly expanded the scope of class struggle (and this culminated in "taking class struggle as the key link"). These two mistakes were focused on the "Great Leap Forward" and the "Great Cultural Revolution." They both derived from the erroneous thought of "leftism." After these sufferings, through setting right things which were thrown into chaos, the party again returned to the correct path and made world-shaking achievements in socialist modernization. However, things of "leftism" remained deep-rooted in China, and errors also occurred in the other aspect. The greatest error existed in the field of education, and it found expression in the phenomenon of one hand being tough and the other hand being weak. The political turmoil in the turn of spring and summer of 1989 gave us a profound lesson. The turmoil was rightist in nature. After learning a lesson from the

negative experience of the two aspects, more people became sober-minded and could more deeply understand the party's basic line of one center, two basic points and more firmly follow the path of building socialism with Chinese characteristics.

Naturally, this is not an excuse for forgiving the mistakes we committed before. This only means that we need to adopt the attitude of concretely analyzing things by putting them against the historical conditions under which they occurred. For whatever reasons, even if the intention is good, as long as one goes against the objective laws, one will certainly incur punishment, and sometimes very severe punishment. People can have a comparatively more profound understanding of objective reality only through their own practice in reality. That is, "a fall into a pit, a gain in one's wit." The painful lessons can never be forgotten at any time.

In the future, we will still need to make further explorations when forging ahead. This will include the need to show respect for the voice of real life and make bold experiments under the premise of adhering to the party's basic line so that advances can be made continuously through summing up positive and negative experience at any time. Maybe we still need to take many years to work out a set of more mature and better-fixed systems in various fields as well as principles and policies corresponding to these systems. Because we have learned a lot of things from our previous positive and negative experience, our future explorations may be smoother than before, just like in the period of the Democratic Revolution, in which we advanced more smoothly later as we learned useful things from our previous experience.

We often say that practice is the sole criterion for testing truth. History, especially our nation's modern and contemporary history, provides us with a vivid record of our predecessors' social practice over a long period of time on the land of our country. We can certainly increase our wisdom and learn useful things by carefully studying the rich experience gained and tested by the Chinese people's social practice over the past more than 100 years and seeing what led to successes and what led to failures. Then our thinking will become more realistic, and we can be more clearly aware how we should continue to advance on the land of our country.

I think this is an important point in our present education in modern and contemporary Chinese history.

**Article Urges Need To Rethink All Philosophies**  
*92CM0248A Beijing DUSHU [READING] in Chinese*  
*No 3, 10 Mar 92 pp 3-10*

[Article by Zheng Yong (6774 8673): "Perhaps Philosophy Is Not What We Think It Is"]

[Text] This was what H.G. Gadamer, the well-known German philosopher, said at the meeting celebrating his ninetieth birthday. I still remember the scene vividly. It was the afternoon on 10 February 1990. The birthday

celebration formally began at 1500. The hall at Heidelberg University was overflowing with Gadamer's friends, associates, students, and even intellectual opponents from Europe, America, and Asia. One of his famous critics, J. Habermas, and his wife were seated in the row in front of me. Seated next to me was an interpretive philosopher from Ireland. As the meeting was drawing to a close, Gadamer gave an impromptu lecture at the request of those in attendance. It was in this lecture that he said explicitly that perhaps philosophy was simply not what interpretive philosophy and all philosophies of the past had made it out to be, that perhaps philosophy was altogether something else.

I was pleased to hear Gadamer make that remark, but it was nothing new to me. In fact, this issue had been a principal part of my one-on-one discussions with Gadamer over a long period of time, which certainly could not be said about everybody else present. The Irish professor seated next to me, for instance, was taken by surprise. At a small tea party (the Germans substituted tea with beer) after the meeting, many people were still mulling over what they had just heard. Why did Gadamer say that? Although a few people did not quite understand his words and raised this or that query, nobody dismissed it as nothing more than a casual remark or some claptrap Gadamer uttered to please the crowd.

A dominant principle in traditional Chinese thinking is: Make no change. Applied in the academic field, this principle requires us to adhere to an idea or a theory for decades or centuries and resist all intentions and behavior that seek to change the idea or theory, not to mention any attempts to replace it with a new idea or theory. Westerners, however, particularly modern Westerners, have an entirely different mind-set. To them, it is abnormal to stick to something for decades or centuries. Any thing that has come into existence becomes part of the past, part of history. Needless to say, philosophy is no exception. This explains not only the emergence of such giants as Plato and Aristotle in ancient times, R. Descartes and I. Kant in modern times, and E. Husserl and M. Heidegger today. It also explains why the history of Western philosophy is a history of change and development, from ontology through epistemology to phenomenology.

It has been 30 years since interpretive philosophy was systematized as a body of thought by Gadamer in the 1960's, and certainly longer since it was first put forward clearly by Heidegger in the early years of this century (although it still did not constitute a coherent body of thought at the time.) If a thing becomes part of the past as soon as it comes into existence, then interpretive philosophy should indeed be considered history. It has been said in jest that Gadamer himself, the founder of interpretive philosophy, belongs to history. I remember running into an expert on the Persian language at Mainz University. After I told him that I worked with Gadamer, he said, "Is the old chap still alive?" Then he laughed. Normally speaking, after dominating the world



of philosophy for 30 years, a system of philosophical doctrine must indeed be considered "old." A 90-year-old philosopher also must be regarded as "ancient." The point, however, is not whether it is old. The problem is that no new philosophical doctrine has arisen that can take on and replace it to become the new center of attention.

The post-structuralism of J. Delida [1795 6849 6671], the famous French philosopher, appeared after interpretive philosophy and has had extensive influence. In Gadamer's opinion, Heidegger's philosophy gave rise to two schools of thought, one represented by himself, the other by Delida. This was high praise indeed. Yet Delida's post-structuralism thus far has not been able to dethrone interpretive philosophy in philosophical circles around the world. This was made clear by what happened at the International Symposium on Heideggerian Philosophy in Bonn in April 1989. The gathering left no doubt that the principal interest of most participants remained interpretive philosophy. The issues raised by interpretive philosophy have not become obsolete.

Be that as it may, Gadamer himself has discussed with me time and again about how to go beyond interpretive philosophy. We talked about the problem of theoretical fatigue in the philosophical community in recent years. It was said that philosophical discourse must not be bogged down in the old issues of interpretive philosophy. The dissemination and impact of interpretive philosophy all over the world was discussed, as were the debates among the different branches of interpretive philosophy and between interpretive philosophy itself and other systems of philosophy (such as K. Barth's critical rationalism.) These were discussed because, of course, there was a desire to understand clearly the main themes in interpretive philosophy. Even more important, however, was the search for a way out of interpretive philosophy.

To get out of interpretive philosophy, you can take one of several routes, or to put it differently, one of several directions. One is pointed up by Western philosophy. According to this line of thinking, Western philosophy from ancient Greece to modern times has come a full circle, although this circle itself is spiraling upward. Nevertheless, it still cannot break free from the framework of Western philosophy. To break free from the framework of Western philosophy is a tall order, a giant leap forward, for Westerners, particularly the masters of philosophy. Prior to meeting such a demand, one must dismantle cultural Eurocentrism, which argues strongly in favor of eliminating centralism in philosophy. Modern Western philosophy (such as post-structuralism) advocates the abolition of centrism in philosophy. If philosophy continues to adhere to cultural Eurocentrism, it would be impossible to uproot centrism in Western philosophy.

Heidegger was one of the leading Western philosophers of modern times to possess the farsightedness and wisdom to transcend the traditional framework of

Western philosophy. He studied the philosophy of Lao Zi and Zen by reading their German translations, mulled over such Chinese philosophical doctrines as Taoism and "nothingness" at length, and discussed them with scholars from Japan and other nations. Heidegger considered Lao Zi's philosophy the fountainhead of philosophy and tried to learn as much as he could from it to establish a new philosophy that would transcend the framework of Western philosophy. This was also why he balked at being attached with any of the existing labels in Western philosophy. Time and again he said that his philosophy was not ontology, not existentialism, not...

Following Heidegger's example, there is yet another way to get out of interpretive philosophy, that is, by using Oriental philosophy to change Western philosophy. To put it in a way typical of interpretive philosophy: conduct a dialogue between Western and Oriental philosophy and create a brand-new philosophy out of this dialogue. The new philosophy will no longer be exclusively Western or Oriental. A well-known Westerner (I cannot recall his name now) once remarked that marry Greek culture with Oriental culture and you will get a brand-new world culture.

This latter route was what preoccupied Gadamer and myself when we discussed how to go beyond interpretive philosophy. It was in this context that he told me about Heidegger and himself. One day he paid a visit to Heidegger. (At the time Heidegger was still groping for the appropriate language to express his philosophical principles. In other words, there was a language barrier for him.) Heidegger took out his latest work and started reading it to Gadamer. But he got stuck somewhere in the piece, unable to continue. He pounded the table with his fist, saying, "Damn Chinese!" So it is clear that as far as Heidegger was concerned, Chinese was extremely difficult to master. Gadamer also told me that since Heidegger did not know Chinese, he had to learn Chinese philosophical thought through German translations. When we discuss such philosophical doctrines as "nothingness," therefore, we need not consider what relevant ideas Heidegger had put forward. Gadamer himself is a linguist with a doctoral degree in ancient Greek, which explains his high and rigorous linguistic demands. In our one-on-one discussions, he often expressed his regrets for not knowing Chinese. I have been asked by some people back home to invite him to visit China. He said, "As far as I am concerned, the door to China was opened too late. I am too old." I understood what he was trying to say. He was not referring mainly to his physical condition or health (he can still travel to the U.S. by plane). Instead, it was the language aspect that concerned him most. Within Europe, he spends months each year flying to Italy, Spain, and other countries to present academic reports. Before each academic presentation, he usually jots down on a slip of paper a couple of key points. Then he would speak spontaneously for an hour or two. A written record of his lecture is invariably a well-organized treatise based on his existing thought laced with one or two novel ideas.

And whether he is making an academic presentation or engaged in a discussion, he always uses the language of the host nation. His command of the language is invariably perfect and he answers every question fluently. However, he does not speak Chinese. To him, going to China to discuss philosophy while not knowing the Chinese language is both inconsistent with the purpose of interpretive philosophy and not compatible with his stature as a great linguist. I guess this is the real reason why he is unwilling to visit China.

We can see from the above that what makes the philosophy of Heidegger and Gadamer so remarkable and praiseworthy is precisely their determined and painstaking effort to change the direction of Western philosophy in a fundamental way. The direction of Western philosophy took shape during the Renaissance and the Enlightenment in Europe. Since then the West has stayed ahead of the East and achieved modernization earlier than the East. In the eyes of some Westerners, therefore, the West is modern while the East still languishes in the ancient past, the West has entered industrial civilization while the East still belongs to the agricultural civilization, the West is advanced while the East is backward. The West has marched ahead of the East, some Western philosophers argue, because Westerners understand nature and society correctly. Also correct are the related theoretical framework, method of thinking, and system of concepts of the West. It was thought that if the understanding of nature and society of the West and its related theoretical framework, method of thinking, and system of concepts are applied to the East, the Easterners too would acquire a correct understanding of nature and society.

Nevertheless, many people of insight in the West have slowly realized that they have not understood nature and society. On the contrary, the West has seriously misunderstood nature and society, a misunderstanding created by science, technology, and rationality, the very things thought to epitomize Western civilization. So these Westerners rethought their thinking and set out to correct their misunderstanding. In other words, they took pains to overhaul the traditional and seemingly correct understanding of nature and society as well as the related theoretical framework, method of thinking, and system of concepts. For Heidegger, this meant an attempt to throw out all Western philosophical conclusions of the past and rebuild philosophy by returning to pre-philosophical "facts," or, as noted above, changing the direction of Western philosophy in a fundamental way.

What is more, Heidegger and others tried to break free from the confines of misguided Euro-centrism and go beyond the narrow modern experience of the West, turning to the Orient, traditionally regarded as crude and backward by the West, for ideological sustenance. This is an important aspect of their effort to change the direction of Western philosophy fundamentally. Certainly this is not to say that Heidegger, having realized that he could not correctly understand nature and society by

following Western philosophy, substituted it with Oriental philosophy in order to arrive at a correct understanding of nature and society. His starting point was neither the West of the past nor the Orient, but the life of the German nation in reality. Using the real-life experience of the German nation and its national language, Heidegger sought to create a new philosophy, a new theoretical framework, a new method of thinking, and a new system of concepts that are rooted in the soil of the present German nation and are different both from those of the West in the past, and from those of the East.

Surprisingly, this positive part of the philosophy of Heidegger and others did not capture the attention of some Orientals—modern Chinese philosophers. It is particularly worth pointing out that even now many famous Chinese philosophers still are following the direction of Western philosophy that took shape in Europe in modern times and continue to apply the theoretical framework, method of thinking, and system of concepts of Western philosophy to understand and interpret the reality in China as well as its history and knowledge. To them, the West represents the present, China the past. Hence their current emphasis on using the present to explain the past in their study of Chinese knowledge.

The method of explaining the past with the present was not invented by contemporary Chinese. As early as modern times, some advanced personalities among China's bourgeoisie and peasantry enthusiastically searched for truth from the West in an attempt to transform China. Why did they all fail in the end? The reason, I pointed out in my academic report "Western Religion and Science and Modern China," is not because the Western philosophical theories introduced into China at the time (including Western Protestantism introduced by Hong Xiuquan) were not advanced, not because the Chinese people at the time eschewed Western ideas and were not interested in modernization. (In reality, not only the bourgeoisie but the peasantry, even emperors, generals, and officials, including Emperor Guangxu and the Modernization Movement, all wanted to modernize China.) The reason is whether or not the introduction of advanced Western ideas and modernization would affect and undermine the foundation of the existing order and ideology. If the answer was no, the apologists of the feudal order would seek to consolidate feudal autocratic monarchism by propagating Western ideas and modernizing. There is no lack of examples of such apologists in China's modern history. As for people in other strata, it goes without saying that this applied to them all. Whether it be Hong Xiuquan or Yan Fu, they all propagated advanced Western thinking. Hong Xiuquan even resorted to mass democracy and violent means to overthrow China's feudal dynasty. He too failed because the basis of the old order and its ideology, such as the system of blood relationships, were left intact. Yan Fu diligently and comprehensively introduced China to such advanced Western doctrines as evolution, not piecemeal, not out of

context, thinking that he had found the remedy for China's chronic ills. But even Yan Fu failed because he left untouched such institutions as the system of blood relationships. He then turned around and did just the opposite: from a worshipper of things foreign, he became someone intent upon restoring ancient ways.

Yan Fu was an extremely typical example. After their worship of things foreign went nowhere and their attempts to explain the past with the present failed, they returned to ancient ways and sought to explain the present with the past. Those who returned to ancient ways and used the past to explain the present not only had no desire to change the system of blood relationships and similar institutions and ideas, but, on the contrary, did their level best to preserve these fundamentals. Certainly their actions were a reaction to modernization. In China, the return to ancient ways and efforts to explain the present with the past primarily manifested themselves as attempts to understand and interpret China's reality and its history with Confucian philosophy. As to the use of peasant ideology and its value system to understand and interpret China's reality and history, that too represents an attempt to return to ancient ways and use the past to explain the present. The change in people like Yan Fu from worshipping things foreign and using the present to explain the past to returning to ancient ways and using the past to explain the present represents a vicious circle. Breaking this vicious circle is an important mission history has entrusted to modern Chinese ideological and philosophical workers.

Certainly what is involved here is the relationship between theory and reality. Modern Western theories came into being at a specific time in a specific place amid the realities at the time. We cannot transplant them mechanically to suit the reality in China today. To do so will necessarily lead to a misreading and misunderstanding of China's reality and history. People who hope to transplant them might think that they understand and interpret China's reality and history correctly. In reality, though, they misunderstand both China's reality and history and the relevant modern Western ideas and philosophy. Thus if a Chinese who has mastered a particular modern Western system of philosophy and methodology wants to break with that particular system of philosophy and methodology, the first thing he should not do is simplistically transplant them to China and use them to understand and explain China's reality and history. Nor should he use China's traditional philosophical issues and concepts to explain Western philosophy and methods. What he must do is to base himself on China, on the real world of the Chinese people, and on their real-life experiences. This is the only way to get a feel for China's problems and identify correctly what they are. And a precondition for identifying China's problems correctly is to "overcome" the existing method of thinking and direction of philosophy mentioned above. To "overcome" is to remove the camouflage

behind which China's problems have taken shelter, camouflage like the habit of using the present to explain the past, and vice versa.

To remove the camouflage, one must proceed exclusively from facts and historical facts instead of a particular method of thinking or a particular philosophical position, including of course the method of thinking, theoretical framework, and system of concepts of the interpretive school of philosophy. In other words, only by discarding all methods of thinking, theoretical frameworks, and systems of concepts can one truly proceed from facts and history. Any existing theory and the regularity and rationality it lays bare can at best explain the facts and history related to it in time and space. As soon as the theory comes into being, it becomes the past. If people who subscribe to this theory believe that the principle that "once a thing comes into being, it becomes the past" applies to all other theories but their own, then this theory is hypocritical and incomplete and repeats the very mistake of its object of criticism. This theory would then cease to be the honest revealer of facts and history and instead becomes the camouflage of facts and history. To the extent that it covers up facts and history, the theory should be removed. From another perspective, of course, as soon as it is worshipped as an immutable dogma, a doctrine or philosophy is no longer something that can remove camouflage but becomes camouflage itself, a candidate for removal. This seems to be the law of development that no theory of philosophy can transcend.

Now if we go back to what Gadamer said at the meeting celebrating his ninetieth birthday, we will understand it better. What he did was merely to articulate a law of historical development that no system of thought or doctrine can resist or be immune from. The difference is that unlike many philosophers, he himself declared that the interpretive school of philosophy, of which he was the founder, would inevitably be replaced by the philosophy of future generations. From the perspective of another person, the interpretation of philosophy that he thinks is right is actually a misunderstanding. This is a profound understanding of philosophy on Gadamer's part.

Gadamer has indicated to his associates and guests several times and noted in writing too that I entered the door to interpretive philosophy under his direct guidance. "Entering," both he and I know full well, actually means "exiting." As soon as Gadamer read the very first paper on interpretive philosophy I wrote at Heidelberg University in Germany, he thought he knew what philosophical issues interested me. He said that I should continue to study those issues in depth and that he would help me engage in philosophical reflection following my own line of thinking. And the very hallmark of this line of thinking is to get out of interpretive philosophy.

The philosophy after one gets out of interpretive philosophy will no longer be what interpretive philosophy says but will be something else altogether. This is the meaning

of the title of this article—"Perhaps Philosophy Is Not What We Think It Is"—in a narrow sense. As for its broader meaning, that must be discussed at length elsewhere as it falls outside the scope of this paper. In any case, what is beyond doubt is that philosophy must be endlessly renewed to stay fully vigorous.

### **Fujian Work in Urban Spiritual Civilization Viewed**

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[Article by Yuan Qitong (5913 0796 1749), deputy secretary of the Fujian Party Committee of the CPC: "Practice of, Thoughts on Spiritual Civilization Building in Cities"]

[Text] Strengthening spiritual civilization building in cities is an important part and the key to socialist spiritual civilization building. Since reform and opening up, the Fujian Provincial CPC Committee has devoted great efforts to strengthening socialist spiritual civilization building and exploring the approach for spiritual civilization building in cities while carrying out building of material civilization and pushing forward reform and opening up and economic construction, and has achieved remarkable success, with the emergence of civilized cities such as Sanming, which is famous all over the country, and a number of civilized cities at the provincial level and civilized county towns. In particular, since the Fourth Plenary Session of the 13th CPC Central Committee, while summing up the lessons of "stressing material civilization at the expense of spiritual civilization" in the past few years, Party Committees and governments at all levels have universally attached importance to and strengthened spiritual civilization building, making spiritual civilization building in our province progress by leaps and bounds.

We have summed up the practice of urban spiritual civilization building in our province in the past few years and our approaches and experience are as follows:

**1. Establish man's spiritual support.** Calling forth man's vigor and improving man's overall quality are the starting point and foothold, as well as the key to the development, of the building of spiritual civilization. To establish man's spiritual support means primarily to enhance people's faith in socialism, raise people's socialist ideological conscientiousness and inspire socialist spirit. Only when man's spiritual support is established can the masses' sense of responsibility and pride as masters of the country be set up, their initiative and creative passion aroused, and the question of the origin of strength for socialist modernization be resolved. Therefore, of the multitude of tasks in spiritual civilization building in cities, the most important one is to establish the spiritual support of residents, improve the ideological and political quality of the broad masses of residents, and make efforts to educate and foster socialist new people of the "four-haves." [have noble

ideas, a sense of discipline and morality, and general knowledge] Under the guidance of this idea, the Fujian Provincial CPC Committee has pointed out unequivocally: The greater emphasis we lay on reform and opening up and the busier we are in economic construction, the more is it necessary for us to strengthen spiritual civilization building to establish man's spiritual support. In the past few years, by carrying out education on the situation, education on the Party's basic line, socialist ideological education, education on "four-haves" and "five-loves," [loving motherland, people, labor, science, and socialism] and mass activities of spiritual civilization building such as learning from Lei Feng and establishing new styles, we have forcefully encouraged healthy trends, improved people's political and ideological quality, impelled people to advance with all-out efforts, brought about the formation of good social practices, and have achieved very good results. These education and activities have produced positive effects of showing the superiority of the socialist system, guiding people to unswervingly take the socialist road, and setting up the correct spiritual support.

Devoting great efforts to advocating and fostering a city spirit that takes Marxism-Leninism as the guidance and reform and opening up, exploration and advancement, doing arduous pioneering work, and selfless devotion as the main line is another important part of urban spiritual civilization building. City spirit is the window of a city, and we can see both the "essence" of the city as well as its "form." The prosperity of a city depends first of all on the rise of the vigor of its residents, and one cannot imagine that a city, in which moral values are declining, and people are in low spirits and lack fighting will, can ever be full of passion and vitality, and has the inspiring spirit to advance. While grasping the work of spiritual civilization building in cities, our province has paid great attention to fostering city spirit with respective distinct characteristics. Practice has proved that city spirit makes ideological and political work concrete and vivid, and has great inspiring and cohesive power. When city spirit is turned into residents' consciousness, it will greatly increase their sense of pride and responsibility, and pool up their common aspirations and strength to struggle for the building of the city and the invigoration of the economy.

**2. Firmly establish the sense of service.** Spiritual civilization building is a cause to transform the society and bring benefits to the people. It includes the building of ideology and morality and the building of education, science and culture, involves the administration of urban affairs, social order, environmental protection, public transport, commercial services, and the building of urban infrastructures, and influences the immediate interests of every trade, profession, and numerous households. Many things need to be done. Some of the problems are visible and touchable and the people demand to have them promptly solved, such as problems of clothing, eating, accommodation and transportation, water supply, power supply, roads, public lavatories,

etc.; others are invisible, but they can be felt by the people and are closely linked with the livelihood of the masses, such as improving social services and maintaining social order. Properly handling of these practical things not only can reflect the party's goal of serving the people wholeheartedly but also can strengthen the party's inspiring and cohesive power. Our province's spiritual civilization building in cities starts right from doing practical and good things for the people. Party and government departments at all levels and leading cadres have taken the lead to establish the sense of service and solve problems and difficulties for the grassroots and the people, and send the warmth of the party and government to every household. For instance, the series of "Warm Rongcheng" activities carried out by Fuzhou achieved good results. Every trade and profession has attached importance to building professional ethics, and further carried out the activity of "Learn From Lei Feng at the Post and Establish Good Style in one's Profession," and educating professional people to establish professional ideals, enhance professional responsibility, raise professional skills, observe professional discipline, maintain work order, and make every effort at one's own post to provide good service to the society. All of the cities in the province have paid particular attention to ensuring the good services of party and government departments, law enforcement departments, service industries which have close relations with the production and living of the people, and units involving foreigners, promoting and commending advanced personnel, establishing advanced examples, criticizing behaviors which violate professional ethics, and creating an environment of social public opinions on conscientiously observing professional morality. At the same time, we have strengthened building of social public morality and improving people's civilized quality of observing public orders, respecting and maintaining social public morality, and have educated and guided the masses to be civilized, polite, obey disciplines, and make efforts to create in the whole society the good moral style of equality, friendship, unity, mutual understanding, mutual respect, and mutual service. Vast numbers of party members and cadres have added lustre to the image of the party in their diligent services to the people and have made the building of spiritual civilization full of vigor.

**3. Grasp well the building of urban infrastructure, improve urban environment.** Spiritual civilization building in cities is a complicated systems project, as it involves the quality of residents, culture, customs, styles, features, and infrastructures of a city. Spiritual development, such as improving the people's quality, is the core and key that determines the building in other aspects. Material development, such as infrastructure, is basic work having a direct or indirect bearing on the improvement of people's quality and on other aspects of spiritual development. Therefore, while vigorously promoting spiritual development, we should, in accordance with conditions, also devote efforts to improve infrastructure and other aspects of material development, strengthen

urban planning, and construction and management. In the past, we did not pay enough attention to studies on the city, and over a long period, we were weak in planning, building and managing cities, bringing to spiritual civilization development many practical problems that needed to be urgently solved, such as the shortage of housing and poor public transport facilities, and lack of planning in urban construction. In light of this situation, the province formulated as early as 1986 an overall plan of spiritual civilization building, and various cities formulated their own specific plans based on their own reality, and took effective measures to implement them in order to solve questions in this respect. In the past few years, we persistently upheld the principle of putting equal emphasis on both ideological and practical work, and making overall plans and taking all factors into consideration. First, we did a good job in improving the environment and infrastructure, and established a batch of cultural and educational facilities. At the same time, starting from doing things which the masses require to be urgently done and which can be done. By combining urban beautification and greening, we conscientiously solved problems in transport, water supply, availability of public lavatories, housing, power supply, vegetable supply, and shortage of schools and kindergartens, and created a favorable atmosphere and environment for the building of two civilizations.

**4. Carry out activities that have distinct themes and effective influence, and mobilize and organize the broad masses of residents to participate in them.** The main body of spiritual civilization building is the masses, and the result often depends on the extent of participation by the people. It requires us to explore all effective approaches in practice to attract the masses to participate. One of the important reasons why spiritual civilization building in our province has been constantly developing in the past few years is that by promoting key activities, we have fully mobilized and organized the masses at all social strata and sectors to give full play to the advantage of individual building and joint building, to push forward the building of civilized areas and zones and bring the development of overall spiritual civilization building. At present, the cities of the province have established 158 civilized areas and zones which have played the role of demonstration, radiating and spurring the building of the two civilizations to neighboring areas. At the same time, the provincial authorities paid particular attention to promoting key projects, such as the building of civilized roads in Fuzhou and Xiamen, and local governments have established a batch of key projects in beautifying cities, greening river banks, building gardens and parks, improving transport facilities, and improving foreign-related professions. By combining the building of spiritual civilization with doing practical and good things for the people, and by using the experience of selected points to promote work in the entire area, the overall spiritual civilization building has developed to a higher level. Spiritual civilization building in cities must attract vast numbers of people to participate, start from reality, and give prominence to the characteristics of

cities, and use the strong points of cities. Quanzhou is a well-known hometown of overseas Chinese and a famous city of culture and historic interest. In its planning and building, the city pays much attention to the relation between inheriting the past and bringing forth new ideas, and has preserved its unique style as a famous cultural city. In activities of building spiritual civilization, the city makes great efforts to promote good national culture and carries out education on tradition and patriotism making use of the rich cultural heritage to improve the quality of residents. It has achieved very good results. International exchanges such as "Marine Silk Road Study Activities," and the "International Puppet Show Festival in Quanzhou, China" have greatly pushed forward the spiritual civilization building of the ancient city.

**5. The Army and people have joined forces to raise the level in terms of ideology of spiritual civilization building.** Over a long period of revolution and construction, the Army and people in our province have fostered a good tradition in which the people support the Army and the Army cherishes the people, and the relationship between the Army and the government and between the Army and the people are harmonious. In spiritual civilization development, we have attached importance to giving play to this strong point. We have made use of the strong points of both the Army and the people and energetically promoted the activities of the people and the Army "jointly learning from Lei Feng, jointly developing spiritual civilization, and jointly carrying forward the spirit of the Gutian Meeting." Starting from the Army and people jointly building civilized streets, our activities have developed to the Army and people jointly building civilized factories, mines, schools, bus stations, and railway stations, and later to the building of civilized zones, counties, and cities. Sanming city had the focus on building civilized units in the beginning. Then it developed the "three good" civilized demonstration areas and finally, the 20 civilized areas in the city. In this way, the city has opened up a new situation in the Army and people jointly building the two civilizations through joining points to form lines and joining lines to form areas. Comrade Li Ruihuan fully affirmed this practice, and inscribed "Jointly Building Is Good, Persistence Is Valuable." Under the principle of jointly building, we strive to achieve the result of "joint effort, joint cultivation, joint benefit and joint improvement." The Army and local governments learn from and support each other in joint building, and jointly run various kinds of technical training and cultural schools for acquiring scientific and cultural knowledge and improving technical skills to train professional personnel and people capable of doing both military and civilian work. In expanding the surface of joint building and handling well joint building demonstration points of the Army and the people, we have grasped firmly work of key projects that are closely linked with the building of the two civilizations and constantly increased the cohesive power of joint building by the Army and the people. The national dual support [civilians supporting the Army and giving

preferential treatment to families of revolutionary armymen and martyrs; the Army supporting the government and cherishing the people] meeting has spoken highly of the joint building activities in our province and believes that such activities have strengthened the ideological and political nature of joint building of the Army and the people, and are effective approaches to enhancing unity between the Army and the government and between the Army and the people in a new period.

The coming decade is a crucial period for our country's socialist modernization as well as an important period for building socialist spiritual civilization with Chinese characteristics. If we want to comprehensively fulfill the 10-Year Program and the Eighth Five-Year Plan to attain the second phase strategic goal and to lay a firm foundation for attaining the third phase strategic goal, we must firmly establish in the guiding ideology the strategic principle of promoting the building of two civilizations at the same time, and further push forward the building of spiritual civilization in cities.

First, it is necessary to further deepen ideological education and further increase the faith of the vast numbers of cadres and masses in socialism. Ideological building is the soul of socialist spiritual civilization building. Under the new situation of further deepening reform and opening up, particular efforts are needed to strengthen ideological and political work, and educate citizens to love the motherland, people, labor, science, and socialism, take such love as their norm in words and actions, and make efforts to become new socialist people with "noble ideals, a sense of discipline and morality, general knowledge." At the same time, we should resist and prevent the erosion and influences of decadent bourgeois ideology, eliminate the poisons of feudal ideologies, and solve various ideological problems existing in the actual lives of the people. We should gradually establish the spiritual support with communist ideals and convictions as the core through various forms of ideological and political work. Each city should continue to promote and foster city spirit, professional spirit with distinct characteristics, and arouse the tremendous enthusiasm of the broad masses of residents to participate in reform and opening up and develop the socialist commodity economy.

Second, we should strengthen overall planning and handle spiritual civilization building as a systematic project. Socialist spiritual civilization building should, in accordance with the development strategies of reform, opening up, and economic construction, set overall long-term goals, define specific tasks and requirements, and make overall planning and careful arrangements. The planning of spiritual civilization building in cities should stress being forward-looking and systematic as well as service functions. It should take into consideration not only the immediate needs, but also needs for future development, and should properly handle the relationship between the present and the future, between parts and the whole, between men and nature, as well as between cities and their neighboring areas. Providing

convenience for the people should be taken as one of starting points for planning and problems which people wish to be urgently solved and things most beneficial to the people should be included in key projects of planning.

Third, we should greatly promote mass activities of spiritual civilization building and mobilize, to the greatest extent, people to participate so that they will receive education and will be enlightened in the course of participation. Leaders at various levels in cities should seriously sum up experience, uphold the approaches that have been proved in practice to be effective, and constantly substantiate and perfect them. At same time, they should, in accordance with the new situation and new tasks of economic construction, and in light of reality, carefully design and organize mass activities with distinct characteristics, and make efforts to explore new methods and approaches to attract the participation of the people. They should persist in carrying out mass activities of the Army and people jointly learning from Lei Feng, jointly building spiritual civilization, and jointly carrying forward the spirit of the Gutian Meeting and in extensively carrying out in cities the series of mass activities with building professional ethics and social morality as the main content, and should constantly enrich such activities.

Fourth, we should earnestly strengthen leadership to guarantee the smooth progress of spiritual civilization building in cities. Party committees and governments at all levels should, centering round economic construction, firmly establish the ideology of grasping the two civilizations at the same time, pay attention to solving the problem of "stressing material civilization at the expense of spiritual civilization" in actual work, and never relax ideologically, waver in determination, or slacken our work. Party organizations at all levels should strengthen spiritual civilization building among themselves, strengthen inner-party supervision and supervision by the people, and make efforts to build grassroots

organizations of the party into strong fortresses which are politically strong, dare to advance and explore, maintain close ties with the masses, observe strict discipline, and have great combat capacity, and to organize and lead the masses in the building of spiritual civilization. We should give full play to the vanguard role of Communist Party members and the vast numbers of party members should set an example to the masses and lead them in building socialist spiritual civilization.

Fifth, we should strengthen theoretical study on spiritual civilization building and raise spiritual civilization building in cities to a higher level. Spiritual civilization building in cities has its own laws of development, and we should make great efforts to strengthen research on such laws so that we can use them better as guidance to practice. We should study the development strategy, major characteristics, and basic laws of spiritual civilization building in cities in a situation of deepening reform and opening up to outside world. We should study the basic theory of spiritual civilization building and the building of this discipline. At the same time, we should seriously analyze new situations and answer new questions arising from actual work of spiritual civilization building. The broad masses of theorists should enthusiastically participate in the practice of spiritual civilization building, and, under the precondition of upholding the four cardinal principles, actively explore and boldly blaze new trails so that the theoretical study of spiritual civilization building can meet the needs of the development of the building of the two civilizations. Comrades engaged in actual work, leading cadres in particular, should support, encourage, and take the lead in participating in spiritual civilization building and the theoretical research on it. They should constantly raise their ideological and theoretical level and improve their professional quality so that they can better meet the needs of the development of the situation and the needs of actual work, and can push forward spiritual civilization building in cities to a new stage.



## NATIONAL AFFAIRS, POLICY

**Macroeconomic Conditions for 1991 Viewed**  
*92CE0505A Beijing CAIMAO JINGJI [FINANCE  
AND TRADE ECONOMICS] in Chinese No 4,  
11 Apr 92 pp 10-17*

[Article by Ma Jiantang (7456 1696 1016), Development Research Center, State Council: "Macroeconomic Conditions and Policies in China in 1991"]

[Excerpt] [passage omitted] IV. Lessons Learned From the Macroeconomic Conditions of 1991

People may advance many different concepts and prognostications, but macroeconomic activity only takes a single path. Any economic worker who participates in debate over the economy should compare his or her concepts and prognostications against the actual course of events so as to learn lessons which might be of use in their research. This writer feels that the economic conditions of 1991 have taught the following lessons.

1. Investment is the most fundamental variable determining the course of macroeconomic events. Excessive investment can lead to expanded demand and rising prices. Insufficient investment can lead to insufficient demand and falling prices. Modern economic theory told us long ago that investment is the most important factor in macroeconomic activity. To a large extent, national economic fluctuations are fluctuations in investment, because changes in investment have an exponential effect upon changes in national income. We are now very aware of the effects of excessive investment and are very vigilant against the dangers of excessive investment. This represents a large step forward in macroeconomic policy making. However, we do not necessarily have an accurate understanding of the side effects of contractions in investment. To put it more precisely, there are misunderstandings, neither large nor small, regarding the main causes of the market slump. Since the fourth quarter of 1989, the central government has been trying to increase demand to stimulate markets. However, two things have come to be understood. 1) The fundamental cause of the market slump has been insufficient end demand, i.e.—insufficient non-intermediate demand. 2) Investment demand is the only variable subject to central government regulation and control. As a result, loans to key enterprises were increased to help them with their inability to pay off debts (we did not realize that this inability was caused by insufficient end demand), and then we later directed the bulk of loans to the circulation link in hopes that enterprises there would act as funds reservoirs (we did not realize that excess inventories, instead of being sold to end users, had merely been transferred from manufacturing to commercial enterprises). It was only after these detours that we began to wake up and listen to those comrades who had been advocating an appropriate increase in investment. Increasing investment has had a multiplier effect. Markets for capital goods and building materials have begun

to pick up. This has spurred increases in income, which have in turn provided a certain amount of stimulus to consumer good markets. Maintaining appropriate growth in investments prevents demand from either expanding or contracting. This is the first lesson we have learned from macroeconomic conditions in recent years.

2. Expansion of credit does not necessarily lead to inflation. As mentioned previously, many comrades have been predicting inflation each year because of the rapid growth of credit, including  $M_2$  money supply, since 1989. When inflation did not match their predictions, they then thought that the lag time for the inflationary impact of a change in money supply had grown longer, or that inflationary pressure was increasing even though inflation had not occurred. Actual practice in recent years has shown these concepts to be invalid. We know that most bank loans go for operating funds, which create intermediate demand. Whether growth of this type of credit causes inflation depends on the existence of two conditions. The first has to do with how much bank credit can be converted into end demand. In other words, when intermediate demand grows, what is the picture in terms of consumption, investment, and exports? When end demand is strong, growing intermediate demand can spur an achievable (sellable) increase in production, but will not necessarily bring inflation (this has been precisely the situation since October 1990). When end demand is insufficient, growth in intermediate demand can only lead to increased inventories. There can be no increase in production, much less inflation (this was the situation from August 1989 to October 1990). The second condition has to do with whether the economy has achieved full employment. In other words, does any idle productive capacity exist? If full employment has not yet been achieved, then even if growing bank credit is accompanied by a growth in end demand, it can only spur an increase in production; it cannot affect price stability. If the growth rate in industries which depend on intermediate demand exceeds the actual growth rate of end demand, inventories will grow. Idle production capacity in such circumstances is converted into stockpiled inventories, and prices remain stable. There is only one situation in which intermediate demand spurred by bank loans can cause inflation rather than growth in industrial production. That is when the national economy reaches or approaches full employment, and several production sectors are running at nearly full capacity and have become a bottleneck impeding further growth. Only then can we say that there is a positive correlation between bank loans and prices. It is extremely harmful not to analyze changes in end demand. Policy recommendations made without the benefit of such analysis will ruin any attempt to formulate economic policy in a scientific manner. In the formulation of macroeconomic policy, we must avoid mechanistic and simplistic monetarism. This is a second important lesson we have learned in recent years from macroeconomic conditions.

3. Macroeconomic policy can only do so much to regulate private consumption. In the face of insufficient



demand, slumping markets, and continuing savings, all of which were caused by falling investment, some people laid their bets on consumption as the "key" to jump starting markets. Under the influence of this thinking, the central government adopted several measures to stimulate consumption, such as lowering the interest rate for savings, doing away with savings accounts which offer interest rates guaranteed to keep up with inflation, and lowering prices. Taken as a whole, these measures had no notable effect. The element herein that escaped everyone's attention is the fact that consumption is a type of individual behavior. The state cannot regulate or control it like it can investment. The key to whether a macroeconomic policy will have any effect lies in whether it can affect the factors which determine consumption. Income is one of those factors. Macroeconomic policy clearly has no direct effect upon income. As the real income of peasants falls, consumption will not pick up no matter what you do to encourage it. A second factor is consumer preferences. This is fundamentally a psychological factor upon which the state's consumption policy has no effect. A third factor is the possession of consumer items. Once a consumer has a certain consumer item, he will not buy another one no matter what you do. The fact that he will not buy another has to do with his desire to allocate his income as efficiently as possible. Although price changes can, to a certain extent, affect consumption structure, it has little effect on total consumption. Thus, the state's macroeconomic policy can do little to regulate or control consumption. The only policy tool available is income. In other words, macroeconomic policy can affect income, and through changes in income affect consumption. The state should hand consumption over to the individual and to the market, allow consumer preferences to guide the market and the actions of consumer goods producers. The state should focus its policy upon income, using income policy to regulate income and consumption levels, and it should build upon this foundation to encourage savings so that funds will be accumulated for the state. For a big country like China, stabilizing consumption, encouraging savings, and optimizing investments is the key to combining macroeconomic policy with development policy. This is a third lesson we have learned.

4. The state can no longer directly control the overall price level, and state-set prices have less and less effect upon the overall price level. As the reforms aimed at establishing a market-oriented economy progress, and as prices are continually freed up, the number of products with state-set prices grows smaller and smaller, and market-set prices account for an ever greater percentage of all prices. The value of products sold at market prices now accounts for about two-thirds of total transaction value. This is a major change in the price formation method. Perhaps we can call it a market-guided price mechanism under the guidance of the state plan. Under this type of price formation mechanism, price levels basically depend on the level of end demand. The impact of state-set prices upon the overall price level has greatly declined. This is an important reason why the overall

price level was far below the level in the plan during 1990 and 1991. In other words, prices can no longer be controlled by state price organs; the state can only exert indirect regulation and control by controlling end demand. Except in public utilities such as the railroads, aviation, water, and electricity, which naturally are run by monopolies, and in a minority of monopolistic commercial sectors such as grains, state prices are not only having less and less impact upon overall price levels, but market conditions to a great extent dictate whether state prices can be raised. If market demand is insufficient, raised state prices are just so much graffiti; they cannot be the real price at which transactions take place. This situation has taught us a fourth lesson: 1) As long as end demand is properly controlled, prices will be stable. 2) State prices no longer play any role in sectors that are open to competition. 3) The ability of state price organs to affect overall price levels has greatly declined.

#### V. A Rudimentary Forecast of Economic Trends in 1992

Because there are many uncertain and unknowable factors in economic life, and more importantly, because there are many interacting factors behind economic growth and price trends, I do not generally believe in concrete economic forecasts, nor am I willing to engage in such prognostication. I shall merely conclude this article by offering a few simple and basic judgments on economic trends in 1992.

1. Because 1991 was only the beginning of an expansion, industrial production will continue to expand in 1992. In view of the effect of the state's policy of restricting production and cutting down on inventory, industrial production may be slightly lower than the 13.3 percent figure posted in 1991.

2. As an increasing proportion of productive capacity is put to use, and as investment and other types of end demand increase, overall price levels will rise somewhat, but prices will not be too high because we are not yet approaching full employment. Inflation may be between 5 and 7 percent.

3. The preceding forecasts assume an appropriate increase in investment. As we have repeatedly stressed, investment is an extremely important variable, but it is difficult to maintain at an appropriate level through regulation and control. There is a positive correlation between anomalous changes in investment, on the one hand, and economic growth and price trends on the other, so the success or failure of macroeconomic policy in 1992 depends on the regulation and control of investment.

4. Consumption and savings are relatively stable variables. In the absence of popular new consumer items, and assuming relatively stable prices, income growth will be the engine for a stable consumption growth rate of about 10 percent in 1992. Correspondingly, savings (especially urban savings) will maintain the strong upward momentum of recent years. Due to increasing

income, I estimate that savings growth in 1992 may be slightly higher than the 30 percent figure posted in 1991.

5. Assuming no major changes are likely to occur in the structure of supply and demand or the structure of enterprise inventories, growth of industrial production will continue to depend on bank credit. In particular, as bank savings continue to grow, growth in loans will become necessary. I estimate that new loans in 1992 will amount to between 280 and 300 billion yuan. Bank loans and  $M_2$  money supply will both grow at a rate of 20 percent or more.

## PROVINCIAL

### Accounting Regulations for Enterprises

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in Chinese 2116 GMT 23 Jun 92

[“Accounting Regulations for Experimental Stock Enterprises” issued by the Ministry of Finance and the State Economic Restructuring Commission on 23 May 1992]

[Text] Beijing, 24 June (XINHUA)—**Chapter One: General Principles**

**Article 1.** These regulations are drawn up on the basis of the “PRC Accountancy Law” and other relevant laws and regulations of the state with the purpose of improving accounting affairs in stock enterprises and safeguarding the legitimate rights and interests of investors and creditors.

**Article 2.** These regulations are applicable to experimental stock enterprises (simplified to enterprises below) approved for establishment according to prescribed procedures.

**Article 3.** Under the principle of operating in line with the uniform requirements prescribed in these regulations, State Council departments in charge of business and financial departments and offices of provinces, autonomous regions, and municipalities directly under the central government’s jurisdiction may supplement these regulations with other necessary regulations in accordance with their actual situation, and report them to the Ministry of Finance for approval or for the record.

In accordance with these regulations and other relevant regulations, an enterprise may formulate its own accounting regulations in conjunction with its actual situation.

**Article 4.** An enterprise shall have its own accounting organ staffed with accountants. An enterprise shall have vouchers, accounts books, and accounts statements for its economic business. An enterprise shall manage its accounting records according to the “Methods for the Management of Accounting Records.”

### Chapter Two: General Principles for Business Accounting

**Article 5.** An enterprise shall abide by all relevant laws and regulations of the state while conducting its business accounting.

**Article 6.** Business accounting shall be categorized into fiscal periods, periodical settlement of accounts, and accounting statements. Under fiscal periods, there shall be yearly, quarterly, and monthly periods. A fiscal year begins from 1 January and ends on 31 December of the Gregorian calendar. Quarterly and monthly periods are also based on the Gregorian calendar.

**Article 7.** The renminbi is the standard currency for business accounting. Deals computed in foreign currencies shall be registered after the amounts of money have been converted into renminbi. The amounts of foreign currencies and the conversion rates shall also be registered.

**Article 8.** Double-entry debit-credit bookkeeping method shall be used for business accounting.

**Article 9.** Accounting records shall be based on economic transactions which have actually occurred, and legitimate vouchers which prove the occurrence of the transactions. These records shall truthfully reflect the financial situation and operational results. The information must be truthful and reliable, the figures must be accurate, all entries must be comprehensive, and all formalities must be complete.

**Article 10.** Business accounting shall be in line with the standards set by the state so that the criteria are uniform and comparable.

**Article 11.** The accounting information shall meet the needs of the state’s macroscopic economic management, the needs of all quarters which want to understand the enterprise’s financial state and operation, and the needs of the enterprise itself to improve its operation and management.

**Article 12.** The methods of business accounting shall be consistent in all periods and they shall not be changed casually. Should a change be essential, the condition and cause of the change, and the effects of the change on the enterprise’s financial state and operating results shall be stated in the accounting report.

**Article 13.** Accounting affairs shall be handled within the period they occur, and shall not be handled ahead of the period or after it.

**Article 14.** Accounting records shall be clear, comprehensible, and ready to be checked and used.

**Article 15.** Incomes shall be compatible with their cost and expenses. All incomes and their relevant cost and expenses incurred in a fiscal period shall be listed in the same fiscal period.

**Article 16.** An enterprise shall keep its accounts on the basis of the accrual system. All incomes and expenses that have been or will be paid in one given period shall be considered as incomes and expenses of this period, regardless of whether the money has been collected or paid; and all incomes and expenses of another period shall not be considered as incomes and expenses of this period, even though the money has been received or paid in this period.

**Article 17.** The value of all property and materials shall be assessed according to their actual cost when they are acquired, purchased, or built. Except for those for which the state has prescribed separately, their book values shall not be readjusted without authorization.

**Article 18.** Business accounting shall have these two types of expenditure: Income-type expenditure and capital-type expenditure. Whatever expenditure that yields returns during the same fiscal year shall be considered as income-type expenditure, and expenditure that yields returns over several fiscal years shall be considered as capital-type expenditure.

**Article 19.** Business accounting shall fully reflect an enterprise's financial condition and operation. Major economic affairs that can influence decisionmaking shall be listed separately, item by item, and they shall be briefly explained in the accounting report.

### Chapter Three: Liquid Assets

**Article 20.** An enterprise's liquid assets refer to the types of assets it uses or turns into cash within one year or within a business cycle longer than one year. In general, they refer to cash, bank deposits, short-term investments, collectibles and prepaid cash, and inventory. An enterprise shall assess all its liquid assets by their categorization, and they shall thus be stated in its statement of assets and liabilities.

**Article 21.** An enterprise shall keep a ledger for its cash and bank deposits. All businesses shall be listed item by item each day, according to the order of their occurrence. Bank deposits shall be listed in details by accounts as well as by the names of the banking and credit institutions. Enterprises with deposits in foreign currencies shall keep detailed accounts of these deposits, both in renminbi and in foreign currencies.

An enterprise which conducts deals in foreign currencies shall keep the accounts after converting the amounts of foreign currencies into renminbi. The amounts of foreign currencies and the conversion rates shall also be recorded. All increases and decreases of foreign currency accounts shall be based on the state's exchange rates for foreign currencies and renminbi. When foreign currencies are converted into renminbi for an account, the conversion rates shall be based on the exchange rates (in principle, the middle rates are used, same below) set by the state when the business takes place, or based on the foreign exchange rates set by the state early in the month in which the business takes place. Toward the end of a

month, the enterprise shall convert its foreign exchange balance into renminbi according to the state's foreign exchange rates at that time, and its foreign exchange balance shall be shown in renminbi. After the adjustment, the difference between the new balance in renminbi and the original balance shall be considered as losses or profits from the exchange, which can be listed as financial expenses of that period.

The book balance in cash shall correspond with the actual amount the enterprise keeps; and the book balance of bank deposits shall be checked against bank statements at regular intervals, and a regulation chart shall be prepared each month.

**Article 22.** Short-term investments, including stocks and bonds, which can be converted into cash at any time and which are intended to be converted into cash at any time, should be credited to the account in the amount of their actual cost at the time they are acquired, and their last market value, if any, should be noted in the appropriate column of the balance sheet. When the amount actually paid by the enterprise for the stocks includes declared but undistributed stock dividends, the dividends should be credited to the account as account receivable and should not be included in the actual cost of the short-term investments. The difference between the cost of the stocks and bonds in the book on the one hand and the income from declared stock dividends and bond interests for the current quarter and the income from the transfer of stocks and bonds on the other should be credited as profits for that quarter.

**Article 23.** Accounts receivable and accounts prepaid should be entered in the book in the amount as they actually occurred.

Accounts receivable and prepaid include bills receivable, accounts receivable, other funds receivable, prepaid payments for goods bought, and fees to be apportioned.

Accounts receivable and prepaid should be entered in the book in the amount as they actually occurred. In addition, detailed accounts should be set up on the basis of the names of the clients and types of fees paid.

When an enterprise, in accordance with the regulations, makes reserve for uncollectible accounts at a stipulated percentage of the balance of the accounts receivable, the reserve should be entered in the column of profits and losses for that quarter. The reserve should be deducted by contra-entries when losses occur as a result of bad debts. Confirmed bad debts should be offset by contra-entries once they are collected later. Whenever the ratio between the reserve for uncollectible accounts and the balance of accounts receivable goes above or below the stipulated ratio at the end of a quarter, the reserve for uncollectible accounts should be adjusted accordingly.

Reserve of uncollectible accounts should be separately maintained in the book and should be entered as a debit of the account receivable in the balance sheet.

**Article 24.** Goods in stock include various kinds of material, commodities, goods in production, semi-finished products, projects under construction, and finished products.

Goods in stock should be entered in the book in the amount of their actual cost.

The actual cost of the purchased goods in stock is the sum of the purchasing price plus transportation, loading, and insurance expenses, reasonable losses during shipment, expenses of handling before storage, and taxes paid. For commercial enterprises, the purchasing price and the taxes paid may be used as the actual cost of the commodities purchased. For construction enterprises, purchasing and storage expenses may be added to the actual cost of the raw materials purchased.

For self-produced goods in stock, the actual expenditures incurred in the manufacturing process are used as actual cost.

For goods in stock processed by other units at the request of the enterprise, either the cost of raw and processed materials or semi-finished products and the expenses of processing, transportation, loading, and insurance, or the original price of the commodities before they are processed plus the processing fees and the tax to be paid may be used as the actual cost.

For goods in stock contributed by shareholders, the value appraised and verified should be entered in the book.

For goods in stock which are inventory profits, the actual cost of the goods of the same kind should be entered in the book.

For goods in stock received as donations, their value should be determined by invoice, custom declaration, relevant agreement, and the domestic or international market value of the same type of goods and entered in the book accordingly.

Enterprises which used planned cost (or selling price) for accounting purpose should set up a separate account for the difference between the planned cost (or selling price) of the goods in stock and their actual cost.

**Article 25.** For goods in stock taken out for use or shipment which use their actual cost for accounting purpose, their actual cost may be determined by first-in and first-out, weighted average, rolling average, last-in and first-out, or job cost methods. For goods in stock taken out for use or shipment which use planned cost for accounting purpose, the difference between the planned cost and the actual cost should be carried down quarterly in order to adjust the planned cost and change it into actual cost.

Low-value, easily depreciable goods and packing and other materials which can be used over and over again

may be written off using the method of one-time amortization, fifty-fifty amortization, and periodical amortization. Low-value, easily depreciable goods put into production and operation by the enterprise as a large amount at one time may be entered as amortized expenses and written off periodically.

**Article 26.** Periodical inventory should be made of goods in stock at least once a year. If the result of the inventory does not tally with the account record, investigation should be conducted to find out the cause, and appropriate action taken in accounting. Such action should be completed normally before the book is balanced at the end of the year.

In the case of inventory profits, the cost and expenses of the goods in stock should be deducted through contra-entry. In the case of inventory losses or damaged goods, their cost and expenses should be entered in the book after deducting compensation paid by the personnel responsible for the damage or by the insurance company and after deducting the residual value of the damaged goods. The net losses caused by natural calamities should be entered as nonbusiness expenditures.

#### **Chapter Four: Long-Term Investments**

**Article 27.** An enterprise's long-term investments include investment of funds in other enterprises for a period exceeding one year or purchase of stocks and bonds the return on which is not or not expected to be recouped within one year. Long-term investments should be accounted for independently and should be listed individually on the balance sheet.

**Article 28.** Funds invested in other units should be entered in the ledger according to payments made or agreed on when investing.

Investments in stocks should be recorded according to the amounts actually paid. If payments made include declared dividends, the amount of these dividends should be entered as a receivable account. The balance achieved after subtracting receivable dividends from the amount actually paid should be recorded as long-term investments.

If an enterprise's investments in other units exceed one-half of its total capital, long-term investments should be recorded according to the pooling of interest concept [an quan yi fa ji zhang 2174 2938 4135 3127 6060 1600], and a combined accounts statement should be prepared according to the provisions of Article 73 of these regulations. In adopting the pooling of interest concept in its accounting, an enterprise's accounting of its long-term investments should show the net assets from its investment and changes in that investment. When there is an increase (or decrease) in the stock holdings in which an enterprise has invested, the enterprise should calculate its increased (or decreased) stock holdings in proportion to the stocks it holds before entering a record in the long-term investment accounts.

Dividends received from the unit an enterprise invests should help offset the long-term investment accounts.

Investment in bonds should be recorded according to the amount actually paid. In the event that chargeable interest is included in the amount actually paid, such interest should be recorded separately.

When bonds are purchased at a premium or at a discount, the difference between the amount actually paid (minus chargeable interest) and the face value of the bonds should be amortized within the holding period.

When a balance sheet reflects an inventory stocks and bonds, their market values (if any) when the books are closed should be recorded for the relevant item.

**Article 29.** Profits, dividends, and interest earned from long-term investments should be recorded in the total profits as investment returns. The difference between withdrawn long-term investment and its book value should be entered as investment losses or profits. If the pooling of interest concept is adopted in retaining long-term investment accounts, the increase (or decrease) in stock holdings should be deemed investment profits (or losses).

#### Chapter Five: Fixed Assets

**Article 30.** Enterprise-owned means of labor that are serviceable for a year or longer with an unit value above minimum requirements should be accounted for as fixed assets.

**Article 31.** Fixed assets should be recorded at their original values. Enterprises should ascertain the original values of their fixed assets according to the following rules:

Values of acquired fixed assets to be recorded should be the combined values of a mutually agreed upon or reasonably assessed price, paid packaging charges, transportation fees, and installation costs.

For self-constructed fixed assets, all expenses actually incurred during the construction should be recorded.

For fixed assets transferred from investments in other units, entries should be made according to the original book value of the particular unit. The endorsed valuation of fixed assets should be their net values. If the net value of fixed assets obtained by endorsed valuation is more than their original book value, the amount so obtained should be the original values of fixed assets.

For leased fixed assets, the prices for the equipment as agreed in the leasing agreement, transportation fees, transit insurance charges, installation, and trial-run expenses should all be recorded.

For renovation or expansion on the basis of the original fixed assets, the principle for recording should be based on addition of the values of the original fixed assets and

expenses incurred during renovation and expansion minus current incomes received during renovation and expansion.

Inventory profits of fixed assets should be entered according to the full replacement value.

For fixed assets received as a donation or gift, value to be entered should be ascertained according to data obtained from receipts issued when the donation is made, customs declarations, relevant agreements, and domestic and overseas market value of similar fixed assets.

For enterprises purchasing or constructing fixed assets with loans, loan interest incurred during purchase or construction and differences in currency conversion should be added to the value of fixed assets.

**Article 32.** Old enterprises should calculate and obtain depreciation of fixed assets according to state stipulations. Depreciation so obtained should be entered as costs and expenses and should not in any way dilute or reduce the capital.

**Article 33.** In general, an enterprise should calculate its depreciation on a monthly basis according to the book value of fixed assets at the beginning of each month and the monthly rate of depreciation. For fixed assets which begin to be used in the middle of a month, their depreciation will not be calculated in that month and will be calculated starting with the next month. If the use of fixed assets is reduced or stopped during a month, the depreciation for that month will be calculated but will be stopped starting with the following month.

When the depreciation of fixed assets reaches the full amount (the total amount of depreciation equals original prices of fixed assets minus the estimated residual value plus estimated clearing costs) and the fixed assets can still be used, depreciation will not be further calculated. If fixed assets are scrapped ahead of schedule, depreciation will also be stopped.

**Article 34.** The differences between the net income from scrapping or transfer (the net income after deducting the clearing expenditure) and the net value of fixed assets (the original prices minus the accumulated amount of depreciation) will be entered in the book as the enterprise's nonoperating income or nonoperating expenses.

**Article 35.** An enterprise should make on-the-spot inventory of its fixed assets at least once a year. Profits or losses of and damages to fixed assets discovered during inventory should be recorded with reason in a written report and entered in the book as the enterprise's nonoperating income or nonoperating expenses.

**Article 36.** An enterprise's procurement, sale, clearing, scrapping, and internal transfer of fixed assets should all be recorded in detail in its accounting book.

## Chapter Six: Intangible Assets and Other Assets

**Article 37.** Intangible assets include patent rights, trade mark rights, exclusive technologies, land use rights, business reputation, and others.

**Article 38.** Intangible assets obtained by an enterprise should be entered into account according to the following stipulations:

Intangible assets invested by shareholders should be entered into account according to the actual evaluated value.

Intangible assets procured by the enterprise should be entered into account according to the actual amount of payment; and

Intangible assets developed and obtained by the enterprise in accordance with legal procedures should be entered into account according to the actual costs in the course of the development.

**Article 39.** The value of intangible assets of an enterprise should be amortized in equal installments according to the period of benefits of such intangible assets. Intangible assets without specified period of benefits should be amortized according to an estimated period of benefits. Intangible assets for which the period of benefits cannot be determined should be amortized in installments for at least 10 years. Intangible assets not fully amortized should be entered separately into the account book.

**Article 40.** Other assets include initial expenditures and other expenditures which should be amortized over a long period.

Initial expenditures are expenses of an enterprise during its founding period, including wages and per diem for preparatory personnel and training expenses for staff members and workers.

Expenditures which should be amortized over a long period are expenses other than initial expenditures and should be amortized over a period of more than one year.

**Article 41.** The accounting of initial expenditures of an enterprise should be done in a separate manner. Initial expenditures of an enterprise should be amortized starting from the first month of production and operation of the enterprise and the period of amortization should not be shorter than five years.

The accounting of expenditures which should be amortized over a long period should also be done in a separate manner. Those expenditures will be amortized in installments during the period of benefit as a result of those expenditures.

## Chapter Seven: Circulating Liabilities and Long-Term Debts

**Article 42.** An enterprise's circulating liabilities are debts that should be repaid within one year, including short-term loans, vouchers, accrued expenses, accrued wages, accrued taxes, payable dividends, and other temporary accrued expenses and advance payments.

A welfare fund for staff and workers obtained from costs and expenditures in accordance with state regulations should be deemed a circulating liability for accounting purposes. Collective welfare funds obtained from after-tax profits should be considered shareholders' equity. It should be entered as a separate account and not be handled as circulating liability.

**Article 43.** An enterprise should raise money to repay various kinds of circulating liabilities on time. If it really cannot repay such liabilities, it should list the debts as nonoperating expenses with the approval of concerned departments.

Various circulating liabilities, such as short-term loans, vouchers, accrued expenses, receipts in advance, accrued taxes, payable dividends, advance payments, welfare funds for staff and workers, and other accrued expenses, should be recorded as separate accounts in the ledger.

**Article 44.** Long-term debts are debts that may be repaid in more than one year, including long-term loans, accrued bonds, accrued expenses for imported equipment, and accrued payments for rented fixed assets with loans.

**Article 45.** The total of long-term debts should be recorded. Interests for loans and losses incurred during foreign currency conversion should be listed in the same account with the principle. Interest on long-term loans and losses incurred during foreign currency conversion should be listed as procurement or construction costs for assets before such assets can be used or become operational. Other interest and losses incurred during foreign currency conversion will be handled as current expenses.

**Article 46.** Long-term debts should be listed separately in accounting reports according to the nature of debts, such as long-term loans, accrued bonds, and other long-term payments. Long-term debts due within one year should be listed separately as circulating liabilities in accounting reports.

## Chapter Eight: Shareholders' Rights and Interests

**Article 47.** Shareholders' rights and interests are shareholders' rights and interests of an enterprise's net assets. The net assets of an enterprise (namely an enterprise's total assets minus total debts) include capital stock, common reserve fund (including earned surplus and capital surplus), collective welfare fund, and undistributed profits.

**Article 48.** The fixed capital stock of a joint limited stock company should be obtained by issuing shares in accordance with the approved total amount of capital. After receiving cash and other assets for shares, the enterprise should enter them into a detailed account based on the types of shares and units or names of shareholders. The approved total amount of capital, number of shares, the face value of each share, and amount of the subscription should all be recorded in detail in a ledger for inspection.

If a state enterprise is reorganized into a joint stock company, its original book value should be adjusted according to assessed and certified value. The adjusted value will be used for total shares. If the total value of shares exceeds the adjusted value, it will be handled as premium on capital stock.

The shares issued by an enterprise should be registered according to their face value. The income obtained by issuing shares at prices above their face value should be entered into the account of the common reserve fund. Expenditures incurred in issuing shares, such as handling fees, commissions for agents, and printing costs, should be offset by the premium if the price of shares issued exceeds the face value; otherwise, expenditures will be listed as expenditures to be amortized over a long period during the operation of the enterprise.

**Article 49.** The capital stocks of a limited liability company shall be recorded in the account in the actual amount contributed by shareholders, and detailed accounts of the shareholders shall be maintained. For investments paid in cash, the amount as received or as deposited into the bank where the enterprise has opened its bank account shall be the basis for recording the capital contribution. For investments in the form of buildings, machinery, equipment, or materials, the amount shown on an examined and verified itemized list of assets as agreed upon shall be the basis for accounting recording. For investment in the form of intangible assets—i.e., propriety technology, patents, trademarks, and the rights to use certain sites—the verified assessment of their value and date as provided in the agreement or contract shall be the basis for accounting. Regarding goodwill derived from investments acquired through purchases and mergers, the differential between the amount of the investment provided in the agreement and the net assets of the unit merged shall be the basis for accounting.

**Article 50.** Except for the following conditions, the capital stock of an enterprise may not be changed at will:

When an enterprise meets the conditions of raising its capital stock and receives approval from the relevant department to do so, it may enter into account the investments contributed by the shareholders and record them in accordance with provisions of Article 48 and 49.

When an enterprise applies for reducing its registered capital stock in accordance with proper procedures, the reduction shall be entered into the account after a repayment of shares or cancellation of shares. When an

enterprise reduces its capital stock through a purchase of its own shares, the reduction shall be recorded after the actual purchase of shares.

When an enterprise reduces its registered capital stock through the cancellation of shares, repayment of shares, or reduction of share values, or when it needs to replace its stocks because of a reduction in capital stock, it shall enter this into the capital stock ledger and record it in detail in the relevant memorandum accounts.

When a shareholder sells his share holdings, the enterprise shall, after completion of the share transfer procedure, transfer the equity under the name of the seller to the buyer in the capital stock ledger and in the various memorandum accounts.

**Article 51.** The enterprise common reserve fund shall be kept in a separate account. The common reserve fund is divided into the surplus common reserve fund and the capital common reserve fund, of which, the surplus common reserve fund is divided into the statutory surplus common reserve fund and the randomly accumulated common reserve fund. Detailed accounts shall be maintained for these funds.

An enterprise shall take out a portion of its after-tax profits for the surplus common reserve fund according to regulations and transfer this portion from the profit distribution account to the common reserve fund account.

Donations received in cash or in kind shall be entered into the common reserve fund account after actual receipt of the cash or materials.

Income obtained by issuing shares at prices above face value shall be entered into in the account of the common reserve fund and recorded in accordance with provisions of Article 48.

**Article 52.** The enterprise's surplus common reserve fund may be used to cover losses. When it meets the requirements, the enterprise may use the surplus common reserve fund to distribute dividends. The common reserve fund may be used to raise capital stock.

The surplus common reserve fund used to cover losses shall be transferred from the common reserve fund account to the capital stock account; the common reserve fund used to raise capital stock shall be transferred from the common reserve fund account to the capital stock account. The surplus common reserve fund used to distribute dividends shall be transferred from the common reserve fund account to the profit distribution account and then to the dividend payment account.

#### Chapter Nine: Costs and Expenses

**Article 53.** Costs and expenses of an enterprise refer to various expenses incurred by an enterprise in the process of production and operation.

**Article 54.** Materials consumed by enterprises in the course of production and operation should be entered as cost and expense, calculated by the amount actually consumed and their book price per unit.

Enterprises should calculate workers' wages based on the form of wage stipulated by the state for stock enterprises and the enterprise's work hours and output records, and enter them as cost and expense accordingly.

Enterprises should calculate workers' welfare funds in accordance with the state regulations and enter them as cost and expense.

In calculating other kinds of expense incurred in the course of production and operation, enterprises should enter as cost and expense the actual number of occurrences of such expenses. Expenses incurred in the current quarter which have not been disbursed should be entered as cost and expense under the name of prepaid expenses for the quarter; disbursed expenses to be incurred in the current quarter as well as in the subsequent quarters should be amortized and entered as amortized cost and expense at each quarter.

The marketing, administrative, and financial expense of an enterprise and the purchasing expense of a commercial enterprise should be entered directly as operating profits or losses; other expenses should be entered as cost on cost accounting basis. Expenses which can be entered as cost on cost accounting basis should be directly entered as such; those that cannot be entered on a cost accounting basis should be broken down and entered accordingly.

**Article 55.** An enterprise should determine its targets of cost accounting, cost items, and cost calculation method suitable to itself based on the characteristics of its production and operation and administrative requirements. Cost accounting targets, cost items, and cost calculating method, once determined, should not be changed at will. Any change in cost accounting targets, cost items, and cost calculating method should be approved by the board of directors, reported to the local financial and tax office, and explained in the accounting report.

**Article 56.** Marketing expenses include transportation, loading and unloading, packing, insurance, and exhibition expenses, selling commissions, and advertising fees, which are incurred in the course of selling commodities and providing services; as well as the workers' wages, welfare expenses, and administrative expenses incurred by the marketing office set up exclusively for marketing the enterprise's commodities.

Administrative expenses include expenses incurred by the board of directors and the administrative and supervising departments of the enterprise in the course of enterprise management and operation, or to be uniformly borne by the enterprise, such as regular company expenses (including workers' wages, depreciation, repair and maintenance expenses, material consumption,

amortized cost of low-value and easily depreciable goods, office expenses, and official travel expenses incurred by the administrative and supervising departments), trade union expense, unemployment insurance expense, expenses incurred by the board of directors, expenses for hiring certified accountant and lawyers, consultation fees, litigation fees, business entertainment expenses, real estate tax, tax on use of cars and ships, land use tax, stamp tax, technology transfer expense, amortization of immaterial assets, workers' education expense, research and development expense, and reserve for uncollectible debts.

Financial expenses include interest outlays, net losses from exchange, and bank handling charges.

Commercial enterprises' commodities purchasing expenses include transportation, loading and unloading, packing, and insurance expenses, as well as reasonable depreciations and losses during shipment, and handling fees before storage.

**Article 57.** Enterprises must draw a clear line between the costs and expenses of the current accounting period and those of the following period; and must not draw expenses in advance, or apportion or write off expenses without authorization. Production enterprises must clearly separate the costs for each product category, draw a clear line between the costs of products and the costs of finished products, and must not arbitrarily lower or raise the costs of products and the costs for finished products.

**Article 58.** Enterprise production costs, operating costs, marketing expenses, management expenses, and financial expenses; and commercial enterprises' goods purchasing costs should be computed separately and computed in detail according to each item by cost accounting and to items of costs or items of expenses. Marketing expenses, management expenses, financial expenses, and commercial enterprise goods purchasing costs should be separately reflected on profit sheets. The aforementioned four kinds of expenses for commercial enterprises may also be computed as a whole and combined and listed as circulation expenses on profit sheets.

## **Chapter 10. Operating Income**

**Article 59.** Operating income refers to enterprise income from the sale of commodities, from providing labor services, and from other business operations, including major operating income and income from other business activities.

**Article 60.** Enterprises should clearly list operating income according to the following stipulations, timely post earned income in accounting books, and include this on profit and loss sheets.

Income from selling commodities should be computed after commodities are shipped out, after the ownership of commodities has been transferred from sellers to buyers, after payment is received, or after proofs for collecting payment are received.



Operating income from long-term contract projects (including labor contract projects) should be computed in accordance with contract law or those laws on the accomplishing of a certain percentage of work.

Interest income should be computed on the basis of the portions of principals not yet recovered, applicable interest rates, and the period during which interest will accrue.

**Article 61.** Enterprise operating income should be computed according to actual payments.

The return of commodities after they have been sold, whether sold during the current or during previous accounting periods, should be deducted from the operating income of the current accounting period.

**Article 62.** Enterprise operating income from various categories should be separately computed and reflected item by item in profit sheets under the major operating income column or other operating income. Enterprises engaging in several kinds of major business activities should separately list out the operating income and expenditures for each major business activity on the income and expenditure sheet for major business operations.

Enterprise operating income for the current month should be completely posted in the account for the current month. The operating costs, taxes, and expenses in connection for the current month's operating income should be independently computed and reflected on the accounting sheets. These operating costs, taxes, and expenses must not be deducted from the current month's operating income.

#### **Chapter 11. Profits and Distribution of Profits**

**Article 63.** Enterprise profits refer to the financial results of enterprises as a result of the enterprises' production and other operations during a specified period, including operating profits, investment earnings, and net income from activities outside their business operations.

Operating profits refer to the results of subtracting operating costs, operating expenses (including marketing expenses, management expenses, financial expenses, and, for commercial enterprises, the cost of purchasing goods), and taxes associated with operating income from operating income.

Investment earnings refer to the net amount of profits, share dividends, interests, and other incomes earned by an enterprise through outside investment, after deducting any investment losses already incurred.

Net nonoperating income refers to the balance after deducting relevant expenditures from all incomes from sources not directly related to the production and operation of an enterprise. Non-operating incomes include inventory profit from fixed assets, income from the disposal of fixed assets, net income from fines, and payable monies that truly have no receivers and are

therefore converted into nonoperating income upon approval in accordance with stipulated procedure. Nonoperating expenditures include inventory losses on fixed assets, losses incurred in the disposal of fixed assets, abnormal losses, and premiums on labor insurance for staff members and workers. Nonoperating income and nonoperating expenditures shall be kept in separate accounts and be listed under separate items on the statement of profit. Detailed and itemized accounts shall be maintained for every nonoperating income and nonoperating expenditure.

**Article 64.** In general, an enterprise shall compute its profit on a monthly basis. Upon approval, an enterprise having difficulties with monthly computation may compute its profit on a quarterly or yearly basis.

**Article 65.** An enterprise shall pay income tax on its profit in accordance with the state provisions on taxation, after making up for losses incurred in the previous years (which shall not exceed the stipulated time limit). Payable income tax which is yet to be paid by an enterprise shall be kept in a separate account as payable monies.

**Article 66.** In accordance with the provisions, an enterprise's profit after deducting income tax shall be distributed in the following order:

Coverage for losses incurred in the previous years (that is, the amount remaining after losses within the stipulated time limit have been covered by profit before deducting income tax).

Contribution to the statutory surplus common reserve fund. An account for this payment shall be maintained in accordance with Article 51 of these provisions.

Contribution to the public welfare fund. Public welfare funds contributed by an enterprise shall be used for collective welfare. It shall be kept in a separate account and listed as an independent item in accounting statements.

The amount of profits distributable to shareholders shall be that remaining after deducting payable income tax, making up for losses incurred during previous years, contributing to statutory surplus common reserve funds and the public welfare fund, and adding undistributed profits from the previous year. It shall be distributed in accordance with relevant state provisions. The order of distribution is as follows: Dividends for preferential shares, arbitrary surplus common reserve fund decided by a resolution of the shareholders' meeting, and dividends for ordinary shares. Dividends set aside for distribution to holders of ordinary shares shall be distributed in proportion to the amount of shares in each shareholder's possession. Dividends that have been set aside but are yet to be paid to shareholders shall be treated as payable monies and transferred to the payable share dividends account.

**Article 67.** After distributing stock dividends and setting aside an amount for the arbitrary surplus common reserve fund, the amount remaining of profits distributable to the shareholders constitutes undistributed profits which may be retained for distribution in the following years. Should an enterprise incur a loss, it may be covered with profits earned during the following years. An enterprise's undistributed profits (or losses yet to be covered) shall be itemized independently in the statement of assets and liabilities as an addition or reduction of shareholders' equity.

**Article 68.** If any accounting mistakes of the previous years, including major deviations from the accounting policy and major mistakes in account keeping, should be discovered after the year-end closing of an account by an enterprise, corresponding adjustments shall be made to relevant accounts for the year in question. Should they involve profits or losses for previous years, adjustments shall be made to the profit distribution account and not to profits and losses for the current year.

**Article 69.** Enterprises' profits and distribution of profits should be computed separately. Detailed accounts of profit structure and distribution should be set up for detailed computation. Income taxes due to be paid by enterprises, the legal surplus common accumulation fund and welfare funds retained by enterprises, distributed dividends from preferred shares, arbitrary surplus common accumulation fund retained by enterprises, distributed dividends from ordinary shares, profits not distributed at the beginning of the year (or losses not made up), adjustments to the previous year's profits, and profits not distributed at the end of the year (or losses not made up), should all be separately listed in profit distribution sheets.

## **Chapter 12. Accounting Items and Accounting Reports**

**Article 70.** The names and contents of accounting items used by enterprises and the variety and formats of accounting statements issued by enterprises are to be decided by the Ministry of Finance.

Enterprises' accounting reports are made up of enterprises' accounting statements and statements on their financial status.

On the condition that accounting computation requirements and the consolidated accounting statements and indexes are not affected, enterprises, in the light of their actual conditions, may increase or reduce the specified numbers of accounting items and of the items in accounting statements. Accounting statements for use by internal management enterprises' may be decided by the enterprises themselves.

**Article 71.** Accounting statements issued by enterprises should include:

1. A balance sheet
2. A profit report

3. A report on the change in financial status

4. related reports

**Article 72.** Enterprises' accounting statements should be forwarded on a monthly or annual basis to local financial and taxation departments, banks with which they have accounts, and responsible departments. Enterprises that are implementing the shareholding system on a trial basis should forward a copy of their accounting statement to local economic restructuring department. Accounting statements of companies with limited liability should be forwarded to each investing unit. Accounting statements from limited companies should be displayed at companies' offices 20 days before shareholders meetings are held for the information of shareholders. Companies that issue shares to the public should announce their accounting statements and other related documents in accordance with regulations set by the Ministry of Finance.

Monthly accounting statements should be issued within six days after the end of the month; annual accounting statements should be issued within four months after the end of the year.

**Article 73.** If an enterprise's investments in other enterprises account for more than 50 percent of the enterprise's total capital, it should prepare a consolidated accounting statement. This consolidated accounting statement should be issued simultaneously with the enterprise accounting statement. If the business nature of an enterprise that receives investments from other enterprises is very special and if an independent accounting statement will better reflect the financial status of the enterprise, then its accounting statement may not be included in the investors' consolidated accounting statements; instead, it should be attached to the consolidated accounting statements.

Joint forms for reporting statistics shall be compiled after cancelling out relevant items. In general, the following items shall be canceled:

The corresponding capital of an investing enterprise and of the enterprise in which an investment is made;

Investment returns obtained by an investing enterprise from the enterprise in which an investment is made and the stock dividends paid out to an investing enterprise by the enterprise in which an investment is made.

With regard to the bond certificates mutually held by an investing enterprise and the enterprise in which an investment is made, that is, when one side is a creditor and the other is a debtor, the number of bond certificates to be issued shall be offset by the number of bond certificates held. Interest income obtained by an enterprise holding the bond certificates shall also be offset by the interest expenses of the enterprise which issues the bond certificates;

Receipts and payments, such as bills, negotiable instruments, as well stock dividends that should be paid out

and stock dividends that should be collected, between an investing enterprise and the enterprise in which an investment is made.

With regard to business dealings, such as the purchasing of goods and marketing, between an investing enterprise and the enterprise in which an investment is made, business income and operational costs, as well as profits in the form of goods in stock, shall be eliminated.

Minority share ownership shall be reflected in the form for reporting statistics if an investing enterprise does not possess the entire share ownership of the enterprise in which an investment is made.

**Article 74.** In submitting its fiscal accounting statement, an enterprise shall enclose an explanation on its financial conditions, mainly stating the following:

1. Its production and business conditions.
2. Its profits and losses, as well as the distribution of profits.
3. The status of its capital turnover.
4. The structure of its fixed capital stock and changes regarding the structure.
5. Status regarding the payment of major taxes and fees.
6. Its bookkeeping operation and changes in methods of submitting accounting reports.
7. Important things that have occurred after assets promises and the settlement of fiscal accounts have been made and before the statistics reporting form is submitted; and
8. Other financial and accounting matters which need to be explained.

The explanation of financial status must be comprehensive, detailed, information-inclusive, analytical, and suggestive.

An enterprise's fiscal accounting statement to be mailed out shall be signed by its administrative leader, chief accountant, a responsible person of its accounting office, and the person in charge of accounting.

### Chapter XIII. Auditing of Accounts

**Article 75.** An enterprises shall, in accordance with state provisions, hire registered accounts approved by the government of the People's Republic of China to check and verify its fiscal accounting statement and accounting books, as well as to prepare an auditing report.

**Article 76.** If deemed necessary, investors in a company with limited liabilities may hire registered accountants on their own to check the company's accounts. The expenses involved shall be borne by the hiring party.

**Article 77.** Foreign investors of an incorporated company which floats stocks abroad may hire accredited

Chinese or foreign accountants to check its accounts, and the expenses shall be borne by the foreign investors. However, the agency from which accredited foreign accountants are hired shall be an accounting firm which has a permanent representative agency in China.

**Article 78.** An enterprise shall provide auditors with vouchers, account books, and other relevant information they need; answer their questions, and explain relevant matters. Auditors shall keep the information confidential.

### Chapter XIV. Closing and Liquidation

**Article 79.** When an enterprise declares closure because its business period has expired, or it has to be dissolved because of reasons prescribed in the company charter, or because of various other reasons, a liquidation group shall be formed in accordance with the relevant regulations of the state to liquidate the enterprise.

**Article 80.** The liquidation group shall make a full inventory of the enterprise's property, materials, credits from accounts payable, and the debts it owes. It shall draw up a statement of its assets and liabilities and a list of its assets, appraise the value of the assets and the basis of the appraisal, handle the unfinished business of the enterprise; collect claimable debts, collect unpaid stock capital from stockholders, settle tax-related affairs, pay the enterprise's debts, dispose of the enterprise's remaining assets, and represent the company in civil litigation.

**Article 81.** The liquidation expenses which the enterprise incurs during the execution of the liquidation shall be dispensed with first from the enterprise's remaining assets.

**Article 82.** The liquidation expenses and the losses or gains incurred therefrom shall be assessed separately, and they shall be so reflected in the balance sheet.

Liquidation expenses include compensation for the members of the mandatory liquidation group, advertising expenses, consultative expenses, litigation expenses, and interest payment during the liquidation period. Liquidation losses include property loss, loss incurring from reassessment of property values, and loss incurring from selling property for cash during the liquidation period, as well as unclaimable debts. Liquidation gains include inventory profits, profits from reassessment of property values, and profits incurred from selling property for cash during the liquidation period, as well as unpayable debts.

After deducting the liquidation expenses and liquidation losses from liquidation gains at the end of the liquidation, the balance is the net liquidation gain or loss. The gain, after being used to make up the loss from the previous fiscal year in accordance with the tax law, is considered profit subject to income tax.

**Article 83.** After liquidation, the remaining property of the enterprise shall be disposed of in the following manner:

In the case of a limited-liability company, its remaining property shall be divided according to investors' capital shares, except when the company charter has prescribed otherwise.

In the case of an incorporated company, the remaining property shall be divided according to the following order:

1. Among holders of preferred stocks according to the face value of the preferred stocks they hold; and if the stock capital of the preferred stocks cannot be fully repaid, the payment shall be made according to the number of stocks held by preferred stock holders.

2. Among holders of common stocks according to the number of stocks they hold.

The beginning of an enterprise's liquidation shall be considered as the end of its fiscal year, and it shall prepare and submit accounting statements in accordance with provisions in Chapter Twelve of these regulations. An enterprise whose liquidation period spans two fiscal years shall prepare its balance sheet, its statement of liquidation expenses, and statement of gains and losses at the end of the fiscal year. The liquidation report submitted by an enterprise, and the accounting statements it submits during the liquidation period shall be considered as effective only after they have been examined and certified by an accredited accountant approved by the PRC Government.

#### Chapter XV. Supplementary Articles

**Article 84.** The PRC Ministry of Finance shall be responsible for interpreting these regulations. The ministry shall revise these regulations when changes are necessary.

**Article 85.** These regulations become effective on 1 January 1992.

#### Review of Stock Market Trends

92CE0543A Beijing JINGJI RIBAO in Chinese  
25, 26 May 92

[Article in two installments from the People's Bank of China, Policy Studies Office: "The History and Future of Stocks in China—A Review of China's Stock Market Status Quo and Trends"]

[25 May 92 p 1]

[Text] *Editors note: As the Pace of China's Reform and Opening Up to the Outside World Is Being Speeded Up, Shareholding, Stocks, and Stock Markets Have Been a Focus of Our Economic Activities for Some Time. While This New and Developing Matter Has Aroused Interest, It has Also Produced Many Doubts and Misunderstandings.*

*In Response to Readers' Demands, JINGJI RIBAO Has Specially Engaged the People's Bank of China's Policy Studies Office To Write The Following Review of Our Stock Market Status Quo and Trends, Which Is the First Public Stand That China's Highest Financial Institution Has Taken on China's Stock Market Status Quo and Trends. This Review, Which Answers Readers' Questions, Is Being Published in Two Installments. [End editor's note]*

An unprecedented "stock fever" is sweeping across China in 1992.

But only five short years ago, when the Shenzhen Development Bank first issued stocks to the public, it had to peddle them door to door. While this enabled it to sell only 49.8 percent of its stock issue, it was forced to act in this way, in order to arouse enterprises to act as sales agents by getting their cadres to subscribe, so that it could take the lead in supporting reform.

Issuing stocks is undeniably an effective means of raising development funds, which has benefited both enterprises and local governments. In 1991, the increased stocks issued by the five companies that already had stocks on the market, such as the Shenzhen Development Bank, Jintian, and Wanke, and the new ones issued by 11 new companies that put stocks on the market, raised 1.369 billion yuan. In addition, the issuing of RMB B-type stocks raised over \$100 million from abroad. And the Shanghai Vacuum Electronics Shareholding Corp Ltd issued 100 million yuan worth of B stocks with the spillover-price method, which raised over 400 million yuan.

Even more importantly, issuing stocks is a good way to oversee enterprise management and convert enterprise operating forces. In the very first year that Shenzhen's five companies that already had stocks on the market by 1991 converted to shareholding, their output value went up 100 percent, their profits went up 215 percent, their enterprise net assets went up 87 percent, their fixed assets went up 155 percent, and their tax payments went up 253 percent, in comparison to the preceding year. In 1991, Shenzhen collected over 20 million yuan in stock stamp taxes alone (not including income taxes on individual stock dividends).

Meanwhile, the street gossip about common people getting rich overnight by "playing" the stock market has multiplied into legends, making stocks very alluring to many people. While the enterprises that have benefited from issuing stocks may be very few in number, their demonstration effect is certainly immeasurable.

Where do stocks actually come from? What is the actual process involved in issuing a stock?

#### Shareholding Enterprises Are the Basis

A famous foreign economist said that "the major difficulty in developing money markets in China is converting existing enterprises to genuine shareholding." A

state-owned enterprise can certainly not be converted to a genuine shareholding one overnight.

While various forms of foreign-invested enterprises adopted the shareholding form of organization when the Shenzhen SEZ was first founded, state-owned enterprise shareholding experiments began there only in 1986. In the years since, only a little over 200 state-owned enterprises have been converted to shareholding, or only about 10 percent of all shareholding enterprises.

Shanghai's shareholding experiment began in 1984. But by the end of September 1991, the relevant departments of the Shanghai municipal government had still officially approved only 11 standardized limited-liability companies.

Conversion to shareholding is very difficult. As it has been so hard to accomplish in Shenzhen and Shanghai, one can imagine how hard it will be in other places. Why is converting to shareholding so hard? The major reason is that the existing system of business management and operating forces makes it hard for shareholding to develop smoothly.

A stock company is an economic entity that is composed of a fixed number of stockholders and their subscribed share capital with limited liability to the company. As opposed to enterprise contracting and leasing, converting China's existing enterprises to shareholding requires a reorganization of former enterprise property rights structures, by unhooking shareholding enterprises from the current management system of carved up administration, and government administration not being separate from enterprise management. Shareholding enterprise operations must be regulated mainly by market forces, in order to genuinely achieve independent management decisionmaking power, individual responsibility for both profits and losses, and independent risk taking. Thus, shareholding advances are linked to making enterprises market-oriented, so that converting to shareholding requires a process.

The major reason why Shenzhen's shareholding conversion occurred slightly faster was that it benefited from the gradual establishment and development of planned commodity economy market forces through reform and opening up to the outside world. It was its better developed commodity economy and more full market development that laid the objective foundation for its enterprise shareholding conversion and stockmarket development.

As this was the basis for the beginning of shareholding in Shenzhen, what is the situation throughout China?

Incomplete statistics from the concerned departments show that while there were more than 3,200 shareholding pilot-project enterprises of all types by the end of 1991, only 2 percent of them issued stocks to the public. Moreover, 63 percent of them were originally collectively owned, while only 22 percent were state-owned.

Investigation of the current state of these experimental enterprises shows that a considerable amount of our enterprise shareholding is very substandard. While the basic feature of shareholding enterprises is that stock rights earnings are linked directly to enterprise operating risks, certain of our experimental enterprises do not act according to the basic rules of shareholding, by violating the principles of stock rights equality and equal profits for similar stocks, and setting profitsharing rates for individual stocks higher than those for national and corporate stocks. Quite a number of experimental enterprises disregard efficiency, by guaranteeing stock dividends and profitsharing and including dividends in costs, which blurs the distinctions between stock rights and creditor's rights and between stock earnings and interest income. Some enterprises have not developed the forms of organization within enterprises that are appropriate to shareholding features, such as shareholder conferences, boards of directors, and oversight committees, or have them in name only and have never even held stockholder meetings. And yet other experimental enterprises have not assessed their assets, with many evaluating their shares in terms of the book value of their net assets, neither calculating equipment replacement value, nor considering invisible assets. Issuing stocks without evaluating or by undervaluing enterprise assets actually enables individual stocks to encroach on some national stock earnings. This shows that until enterprises have established self-restraint forces and shareholding experiments are standardized, issuing too many stocks too quickly will hardly achieve the desired results, and may even run contrary to them.

#### **Good Enterprise Management Is a Prerequisite**

When leafing through the pages of the thick *Shenzhen Stock Market Annual Report*, what catches the eye is the detailed data on the business operations and financial management of the various categories of enterprises, including the companies that have stocks on the market, those that do not, and the ones that have applied to convert to shareholding. Everything that should be is there, from lists of names and resumes of boards of directors and general managers to documents and reports on meetings of stockholders and boards of directors, and from past years of operating achievements and future plans to financial report forms and profit distribution.

The Shenzhen Zhonghua Bicycle (Group) Corp Ltd is a joint-venture enterprise of the Shenzhen Yingda Group Corporation, the Hong Kong Dahuan Bicycle Corporation Ltd, and the U.S. Schwinn Bicycle Corporation Ltd, which went into operation in January 1985. From 1985 to June 1990, it achieved remarkable economic efficiency. It increased its gross bicycle output from 43,000 to 1.072 million, its bicycle exports from 24,000 to 1.044 million, its gross output value from 8.02 million yuan to 556 million yuan, and its net profits from a negative 1.94 million yuan to 40.3 million yuan.

It is not hard to see that the key prerequisites for an enterprise that applies to issue stocks to the public are its operating achievements and financial conditions. If it has mediocre operating achievements and declining efficiency, how can it acquire prestige or raise capital by floating shares? If an enterprise cannot sell the products that it produces, basically does not earn money, and operates at a loss, who will buy its stocks? While such an enterprise may want to issue stocks, how could it?

It is no wonder that the Shenzhen Provisional Regulations on Stock Issue and Transaction Management stipulate eight prerequisites for enterprises that apply to issue stocks to the public, the first three being that they be established as or reorganized into shareholding corporations, that their production operations be in line with industrial policy, and that they have good finances and operating achievements. As many as 36 percent of the enterprises throughout China currently sustain losses, many of which have far greater hidden losses than book losses, which financial conditions mean that a considerable number of our enterprises are still unqualified to issue stocks to the public.

#### **Our Current Accounting System Must Be Reformed**

In order to issue stocks to the public in Shenzhen, it is necessary to have an assets evaluation report from an assets evaluation agency and an assets examination report by an accounting service and, if state-owned assets evaluation and examination are involved, a detailed confirmation document from the State Administration of State Property. Making enterprise assets public is the most basic requirement for stock issues and transactions. The periodic publication of full and reliable conditions within enterprises, which enables investors to compare enterprise operations, requires the use of widely accepted accounting methods and procedures, as well as evaluations and audits by independent outside auditors.

Shenzhen is developing step by step as follows: In order to adapt to shareholding development needs, Shenzhen began a pilot project in 1989 to reform its enterprise accounting system, and has drawn up and published in accordance with international practice in 1992 the *Shenzhen SEZ Accounting Standards*, which apply uniformly to all types of enterprises. This new accounting system is closer to international accounting standards in the areas of style and structure, accounting pattern, accounting policy, and accounting processing. When Shenzhen began to issue B stocks in 1991, it specially invited well-known Hong Kong and international accounting services to reorganize in line with international standards the financial report forms and relevant information statistics-keeping of companies that put stocks on the market, so that both foreign and domestic investors could acquire full, accurate, and reliable information about enterprise conditions. This shows that the state-owned enterprise accounting system currently being practiced throughout China is not suited to shareholding

enterprises that are made up of various types of economic components and conduct diversified operations. Our evaluation and auditing agencies and standards are also very unsuited to shareholding, all of which are serious obstacles to full-scale stock issues and transactions.

#### **It Is Extremely Urgent That We Draw Up Sounder Laws and Regulations**

While stocks have certainly not been being issued and traded in Shenzhen for very long, Shenzhen has published in recent years over 40 legal documents in areas, such as stock issue and transaction management, RMB special stock management, and the management of negotiable securities agencies and companies that put stocks on the market, including some dozen key and comprehensive laws and regulations.

Sound stock issue and trade markets must be backed up by sound laws and regulations. In the experimental shareholding that has gone on in various areas in recent years, there have never been nationally uniform relevant laws and regulations. While Shanghai and Shenzhen have drawn up local laws and regulations, as have certain other provinces and municipalities, they are not uniform for all areas, differ greatly in number, and in some cases are not universal as to basic concepts and common rules. Thus, until we have sounder laws, it will be very hard to issue and trade stocks widely in all areas. This is the experience not only of Hong Kong, Taiwan, and foreign countries, but also of Shanghai and Shenzhen.

Just as "cherries may taste good, but cherry trees are hard to grow," shareholding and stock issue and transaction experiments may have proved to be very vigorous, but their development and maturity will require a difficult and tortuous process. When the Hong Kong Xiongzuzu Corporation Ltd sold a new stock to the public, the thick volume of relevant data that it had to print and distribute was 57 pages long with 30,000 words, which shows how complex and painstaking is the process. So it seems that in conducting shareholding experiments, we cannot take shortcuts, reach the goal in one step, or even less so rush headlong into mass action, but rather must act in a down-to-earth manner by creating the conditions for gradual advances. Of course, as shareholding is only one way of converting enterprise operating forces, and certainly not the only one, enterprises in all areas should act pragmatically, by choosing operating forces and development routes that are suited to their own conditions.

[26 May 92 p 1]

[Text] After Shanghai and Shenzhen set up stock exchanges, many other places thought that they would not have to worry about not having stocks as long as they set up stock exchanges, just as "there is no cause to worry about not being able to attract a golden phoenix as long as there is a Chinese parasol tree." Certain cities in northeast, north, south, east, and southwest China and

even some counties wanted to set up stock exchanges, which became a popular goal for a time in some places.

Faced with this wave of enthusiasm, some experts began to ask questions, such as how can China actually establish and develop stock exchanges, and should they be set up everywhere?

#### **Stock Exchanges in China at Present Can Only Be Experiments (or Pilot Projects)**

As arenas of concentrated securities trading, stock exchanges are an inevitable product of the development of a commodity economy and a credit system. China's current pilot projects in Shanghai and Shenzhen are playing a positive role in changing our single method of financing, converting some consumer funds permanently to construction funds, decentralizing investment risks, enhancing public oversight of enterprises and enterprise vitality, increasing state revenue and enterprise income, guiding fund orientation, and further improving the operating forces of our combination of planned economy with market regulation. Despite this, the concerned parties in Shanghai and Shenzhen are taking a very sober approach. A concerned authoritative department in Shenzhen has made the following assessment: "While the Shenzhen stock market is just beginning to get on track and develop steadily after five years of experimentation, we are still far from being able to say that it is a success because there are still a great many unstable factors. As there is also much difficult and complicated work to be done, we will continue to explore actively and safely."

Actually, we are learning more bitter lessons than achieving sweet successes. The institution in charge of the Shenzhen stock exchange—the Shenzhen branch of the People's Bank of China (PBOC), clearly reports that the exchange solved in 1991 the "six problems" of major stock fluctuations, deregulating stock prices, issuing A stocks, issuing B stocks, concentrated trading, and computerized trading. Disregarding the manpower, material, and time spent by the Shenzhen stock exchange in demonstration, design, and preparation, stock prices skyrocketing in September and then plummeting in November alone shook up unknown numbers of people and left the government and concerned departments breathless with anxiety. Shenzhen's experience has brought a clear understanding that stocks can have a significant impact on banking and even on overall economic and social stability. If conditions are not met, all areas rush into action, and management does not keep pace, problems are very likely to occur.

Both securities and stock markets have historical development processes that occur in various stages. Some experts who have long studied modern stock market operations point out that a country's stock market development generally undergoes the four stages of initial indifference, artificial manipulation, passionate speculation, and standardized maturity. This shows that

exchanges certainly may not succeed in immediately reaching the mature stage as soon as they are set up.

Shenzhen's stock market has also undergone the four development stages of an initial stage from May 1987 to March 1990, an overheated stage from April to mid-November 1990, a slump stage from mid-November 1990 to the end of September 1991, and a steady recovery stage from the beginning of October 1991 to the present.

Historical development stages may differ according to various national conditions. As we still lack the proper and widespread objective qualifications in areas, such as social, economic, banking, and public mentality, and developing exchanges is an extremely complex type of systems engineering, with not only high hardware demands, but even higher management software ones, how to specifically manage, administer, and operate them are quite complex matters. Moreover, exchanges are sensitive social and economic barometers, where one slight change can affect the whole situation. In particular, as China's economy is in a period of transition, proceeding from our national conditions to establish and develop stock markets and exchanges with distinct Chinese characteristics will require painstaking explorations and experiments.

Everyone knows that Shanghai has a history of being the banking center of the Far East, where the preliberation banking and securities business was well developed, with a large number of banking and securities personnel and professionals and a well-developed public banking mentality, while Shenzhen is an experimental base for reform and opening up to the outside world, where most enterprises have been shareholding ones right from the start. As banking has developed quickly and commodity economy concepts are widespread in these two cities, they are well-qualified to experiment with stock exchanges, so that focusing our efforts on running our Shanghai and Shenzhen exchanges well and constantly summing up their experiences will play a pioneering and bridgebuilding role in the development of China's stock markets and exchanges.

#### **Stock Exchanges Cannot Be Allowed To Spring Up Everywhere**

Once Shanghai and Shenzhen's stock exchange experiments are successful, should all areas be allowed to set up stock exchanges? The following figures may be able to shed a little light on this. While the world's first stock exchange that was set up in Amsterdam, Holland in the 17th century now has a history of more than 300 years, over 60 countries and regions in today's world still do not have stock exchanges. While in the United States 50 states have 18 stock exchanges, Japan has eight, and France has seven, only one or two of these are truly of major importance. We can see that even in these countries with very well-developed market economies, stock exchanges are not everywhere, with only one per city, and then in only a limited number of major cities.



The reason for this is that one of the prerequisites for the establishment of a stock exchange is a fair-sized number of stocks and bonds. As a stock exchange is an arena for concentrated trading of stocks and bonds, it requires a certain quantity and variety of stock and bond market transactions, without which it loses its exchange significance.

On the other hand, stock exchanges are not closed, and are even less so firmly limited by area. The New York Stock Exchange is certainly not limited to New York State, or even only to the U.S., but is worldwide in that as long as your stock is qualified to be put on the market, it has the opportunity to find favor on the New York Stock Exchange. Neither do the Shanghai and Shenzhen stock exchanges belong only to Shanghai and Shenzhen, but rather to all of China, and perhaps someday to the whole world.

The history of world economic development also tells us that not all stocks should be put on the market or traded for the following reasons: 1) Not all shareholding enterprises should issue stocks. Due to economic diversity and complexity and, as the assets compositions of shareholding enterprises are of every description, many shareholding enterprises are not constituted in a form to issue stocks. 2) Not all stocks can or should be traded on markets. This is because the enterprises that participate in exchange trading and their stocks must have specific qualifications, without which trading them would affect the normal operation of stock markets. Therefore, it is obviously unrealistic and out of line with objective stock market laws to think that as long as there are stocks, they can be put on the market and exchanges can be set up.

In short, the transition from shareholding to stock issues and stock exchanges is a necessary historical development process. While stock exchanges are both ends and new beginnings, this certainly does not mean that all areas or enterprises must complete the whole process by having exchanges. Shareholding, stocks, and exchanges are three different levels, which can exist together or successively, but also can stop at either of the first two levels and not advance to the third.

Stock market risks must be guarded against. Our experimental stock exchanges in Shanghai and Shenzhen and the driving force of our "exchange fever," in which buying stocks has become a craze and a stimulant, seems to imply that each of us can become a stockholder and a permanent stock exchange customer overnight.

Some people hope to make a lot of money through buying and selling stocks. While it is undeniable that some have certainly made money and even become rich through selling stocks and bonds, this certainly does not prove that stock risks have disappeared. Rather, it is a precise reflection of such risks. If every stockholder gets rich without risk, where does this wealth come from and where does the risk go? It is inevitable that those who get rich overcome the risks, and those who suffer losses bear

them, the correspondence of which is a unity of opposites. "The higher the gain, the greater the risk" is a vivid description of stock risks.

While the government and departments in charge may not want such risks to arise, there is no way to get around the operating laws of stocks per se. As it is absolutely impossible to completely avoid such risks, the only thing that can be done is to reduce them to a minimum. This is a warning to each of us that stock markets have risks and stocks must be bought carefully. Our conversion to shareholding, issuing of stocks, and operating of stock exchanges are all now experiments, where we are still faced with many difficulties and problems. But as they are a key current way to speed up economic and banking reform, as well as a historical development trend, we are full of confidence in them.

## INDUSTRY

### Problems of Whole-People-Owned Industries Viewed

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[Article by Liu Li (0491 0500): "Alarm Sounds Once Again—China's 1991 Industrial Growth and Hidden Worries"]

[Text] In 1991, China's accumulated growth rate for industries at and above the county level was 12.9 percent; and it would have been higher for growth among industries at and below the village level. This showed a continuous double-digit growth rate in China's industrial production beginning in the fourth quarter of 1990 and the greatest growth after rectification and consolidation. At the same time, there were prominent contradictions such as the slow turnover of capital caused by overstocked industrial goods, deteriorating operational environments, and the persistently poor economic performance of industries. In particular, after the industrial development pace had picked up, an irrational composition of industrial production re-emerged so that the tenuous achievements that we had made in rectifying and consolidating the readjustment of the industrial product mix were diminished. I intend to make a preliminary analysis and discussion in this article on the causes and conditions, as well as the consequences and responsive measures, of industrial growth.

### I. Causes and Conditions

Under the circumstances in which the national economy had become overheated in successive years and demand inflated, the speedy 20.8 percent growth in industrial production in 1988 and its serious consequences were still fresh in people's memories. Yet, two years later, the development pace of industry rose again when the economy as a whole was still under rectification and consolidation. When analyzing the



current industrial growth, we can see that in the macroeconomic environment after rectification and consolidation in 1989, there have been new changes in economic operational mechanisms. During this period, the macroeconomic pattern has been changed from an economy in which there was a shortage in supply, where demand always exceeded supply, into a new pattern in which aggregate supply exceeds demand and in which oversupply coexists with shortages. With this foundation, the following analysis is made of the causes and conditions of the current industrial growth.

### 1. Expected demand from enterprises.

Compared to the situation in 1988, when investments in fixed assets were out of control in successive years and aggregate demand in society became inflated because of an unduly high level of spending which boosted industrial production and quickened the development of industry, it was not demand that played a leading role in the current growth of industrial production. On the contrary, beginning in early 1989, because of various policies tightening macroeconomic investments and checking consumption, both investment and consumption dropped and then rebounded. According to calculations made on parity prices from the previous year, investment dropped by 17.3 percent in 1989 and consumption dropped by 7.6 percent; but the two respectively dropped by 4.5 percent and increased by 0.3 percent in 1990. After rectification and consolidation reached a stage in which the economy had been restored, both investment and consumption gradually increased. In 1991, the two resumed normal growth. Annual growth of investment in fixed assets was about 15 percent and that of commodity retail sales in society about 12 percent. After making adjustments for inflation, actual growth was less than 10 percent. However, in the first two years of rectification and consolidation, both still grew at respective rates of 8.5 percent and 7.8 percent so that the accumulated growth of industrial production in those two years was 17 percent. Ex-factory prices of industrial products for the same period increased by 23.5 percent. As a result of insufficient demand, industrial enterprises' total inventories doubled at and above the county level, exceeding the sum of investment in fixed assets and commodity retail sales by a large margin. This was the reason for the high-speed growth in 1991. Judging from the figures, we see that although we maintained a general balance between aggregate supply and aggregate demand over the past two years, we treated inventories of newly-added products, which had not yet been realized, as an accumulation of working capital, that is, taking demand as the prerequisite. Therefore, compared to the high-speed growth of 1988, which was attained because of continuous inflation in immediate demand, the current high-speed growth in industrial production is mainly caused by expected demand from enterprises.

### 2. Orientation of macroeconomic policies.

In rectification and consolidation, our macroeconomic guiding ideology continued to emphasize economic growth, particularly growth in production, which was manifested by our unwillingness to give up economic growth, particularly in production, while dampening demand. Therefore, to a certain extent, the current high industrial growth was directly caused by macroeconomic intervention in microeconomics. In October 1989, under the economic readjustment and dampening of demand, industrial production saw negative growth of 2.1 percent, which happened only once during the period of rectification and consolidation. In order to turn production back to normal, we immediately took a relaxed attitude toward credit. Beginning in October 1989, we allocated a large amount of additional loans to enterprises as working capital and introduced various policies and measures that switched from the promotion of intermediate demand to that of final demand. Undoubtedly, this played an important role in stimulating production, strengthening enterprises' demand, and boosting expectations that the market would be revitalized. This caused industrial production to grow so rapidly that it currently exceeds its proper level. It is 8 percent higher than the growth rate stipulated in the five-year plan. Some people hold the view that the current growth in industrial production was realized on the foundation of a low base for the past two years and that the figure becomes normal when we consider the average growth rates over the past three years. We hold that when we determine whether or not production and operations are running in a normal cycle, we should at least maintain consistency between the increased amount and the composition of production and demand, that is, linking production to sales. In fact, our industrial production had exceeded demand and grew blindly for two successive years; the situation of overstocked industrial products had become very prominent; and industrial production continued to grow excessively, causing the rate to exceed the bounds of appropriate growth. Furthermore, under the current circumstances in which shortages and oversupply coexist, it is inevitable that we will make inaccurate macroeconomic judgments when we simply take growth speed as the overall criteria.

### 3. A boost from capital and credit inflation.

Between 1988 and 1989, the amount of newly increased loans to industry in the form of working capital totaled 151.4 billion yuan. Compared to the end of 1985, the amount of such working capital loans to industry had increased by 94.4 percent by the end of 1988, which played an important role in bringing about high growth in 1988. During the period of rectification and consolidation, we put into circulation as working capital for industry to restore production a total of 197.1 billion yuan, an increase of 56.3 percent when compared to that by the end of September 1989. The magnitude this time was by no means less than that in which we had put loans into circulation for three successive years before the last high-speed growth phase. The difference between the two was that in addition to having continuous capital

inflation, we saw the emergence of "debt chains" among enterprises, which started in early 1989 and continued to intensify, and under the incentive of "improving performance by deferring payment" and "generating output value by deferring payment," the situation became so bad serious credit inflation developed. Consequently, we turned a large portion of loans, which had been newly put into industries as working capital, into product inventories, and this also gave rise to a serious credit inflation among enterprises. According to calculations, about half of the newly increased working capital loans granted after 1989 to industries was turned into additional inventories; about one-third was deferred payments for goods payable to units other than enterprises; and less than 20 percent of the capital was allocated as reserves and production funds, which was hardly sufficient to offset the price increases. Furthermore, according to a special survey and analysis, about half of the amount of deferred payments relating to capital construction took place in that year. This indicated that the deferral of payments relating to capital construction was not the major cause for having such a huge amount of "debt chains" among industries in recent years. Capital and credit were inflated for the reason of striving for production growth.

#### 4. Growth favorable to industrial production.

Growth in industrial production was still caused by excessively rapid growth in industries other than those owned by the whole people, industries in coastal areas, and processing industries. Of the high industrial growth of 1988, the new increase in output value by the above three groups respectively accounted for 52.2 percent, 51.3 percent, and 54.8 percent; and they respectively affected industrial growth by 9.2 percent, 9.1 percent, and 9.7 percent. In 1991, of the increase in industrial output value, the three groups above respectively accounted for 56.9 percent, 50.4 percent, and 55 percent and affected industrial growth by 7.3 percent, 6.5 percent, and 7.1 percent. Growth in processing industries still reached 18.5 percent although overstocked products and a considerable portion of idle productive forces became more prominent. Included in the growth were the pharmaceutical industry, plastic products industry, transportation equipment industry, electronics and telecommunications equipment industry, and equipment and instruments industry, which were all over 20 percent.

## II. Consequences

We can see from the above analysis that although industrial growth in 1991 was similar to that in 1988 in certain aspects, they were essentially different. We attained high-speed industrial growth in 1988 because there was continuous inflation in aggregate demand, production and sales of industrial products were brisk, and the industrial production process and operations were so smooth that we even came to a stage where "the radish grew so rapidly that one did not even have

time to wash it." When we later carried out rectification and consolidation and cut the scale of industrial production, we proceeded from long-term interests, focused on the overall balance of the national economy, and aimed at solving the problem of dislocation in the macroeconomic structure. In 1991, however, high-speed industrial growth occurred under circumstances in which aggregate demand had dropped for two years in a row, demand continued to decline, the industrial production process and operations were sluggish, and microeconomic contradictions among enterprises coexisted with the macroeconomic difficulties of the state. While the production cycle was obstructed, there was high-speed growth, the contradictions among enterprises were intensified, and the macroeconomic difficulties worsened. In terms of immediate interests, various economic problems became apparent, and in terms of long-term interests, it would become harder to handle various potential contradictions.

#### 1. Contradictions concerning the composition of industries were intensified.

The excessively high industrial growth, which was caused by high-speed growth in processing industries, was a major cause of our industrial rectification in 1988 and is an increasingly prominent problem currently faced by industry. According to preliminary statistics, processing industries accounted for 46.5 percent of the gross output value achieved in 1988 by industry at and above the county level. The level dropped for a certain period in the third quarter of 1989, that is, when industrial growth reached its nadir, but its proportion bounced back to 48.4 percent and was even 1.9 percent higher in 1991 than in 1988 after industrial production suddenly accelerated in the fourth quarter of 1989. The remote cause of high-speed growth in the processing industries was demand inflation and it was later brought about by additional production capacity formed through the start of projects started blindly because demand had become overheated and such capacity was given full play. Consequently, on the one hand, the portion of production capacity in processing industries that exceeded current demand lay idle with a utilization rate of only 50 percent; and on the other hand, it became a major cause for stimulating production scale inflation which meant that it was difficult for us to put an end to the state of "high speed and poor efficiency" in China's economy. When compared to the above, our work regarding growth in basic industries was far from satisfactory although we made great efforts in rectification and consolidation to maintain it. During this period, basic industries bounced back only for a short period, and industries quickly became stagnant when they were restricted by demand from downstream industries and encountered serious deferral of payments. This also affected the development of industries owned by the whole people, which accounts for more than 80 percent of basic industries. Through the high-speed development of industries not owned by the whole people and of industries in coastal areas, we also found data proving

that the identical composition of industries in these industries was contrary to our overall industrial policies. Since we started our reforms, the development of industries owned by the whole people, industries in inland areas, and basic industries has lagged behind those of the above three types. This is related to structural problems, economic and geographical factors, the input-output cycle, and product pricing, and these were generally manifested as a lack of proper economic vitality. Compared to the processing industries, the elastic coefficient of basic industries in economic development was small, or the industries were inelastic so that their economic flexibility was insufficient. When the economy was overheated, "bottleneck" restrictions on basic industries were strengthened so that their production processes were overloaded and improvements in the industries were made at a slow pace. However, when the economy was too sluggish there was a relative glut of products made by basic industries and the production cycle was inactive so that any development of their reserve strengths was restricted and improvements to the "bottlenecks" were still too slow. Processing industries, however, particularly prefer an overheated economy and they continued to maintain growth during the period of economic readjustment.

## 2. The economic performance of industries is still poor.

High-speed growth did not bring about better performance and the major indexes regarding the economic performance of industry even dropped in 1988 when industrial growth was at its peak. In that year, the net output value of all industries dropped by 1.19 percent when compared to 1987 and the sales, profits, and tax delivery ratios of industries controlled by the budget dropped, costs overran by 12.3 percent, and losses increased by 26.6 percent. Although industrial production maintained double-digit growth for more than a year, the economic performance was still poor. Compared to 1988, net output value of all industries dropped by 3.12 percent; the amount of profits and taxes delivered for each 100 yuan of sales revenue received by industries controlled by budget was 12.96 yuan, which was a drop of 6.55 yuan when compared to 1988; the proportion of deficit enterprises was 54.4 percent, an increase of 46.2 percent when compared to 1988; costs overran by 6.1 percent; and losses increased by 10.8 percent. Of these figures, 11.9 billion yuan were newly increased losses over the last five months and the amount of retainable profits for each 100 yuan of sales revenue was only 1.4 yuan, falling by 59.5 percent when compared to 1988. Through this comparison, it was found that the economic performance of industries owned by the whole people dropped sharply and the extent to which their performance could pick up was limited. This was undoubtedly unfavorable to the task of easing financial difficulties and improving macroeconomic readjustment and control. Compared to 1988, the amount of profits received in 1990 by industries controlled by budget dropped by 65.3 percent. Even though output value grew by 10 percent in the first 11 months of

1991, the amount of realized profits still dropped by 6.1 percent, or dropped by 65.6 percent when compared to the same period of 1988. Though the recent decline in industrial profitability was checked, the status of enterprises' operations, which had declined for three successive years, seriously deteriorated, and fluctuations within a short period of time indicated that enterprises had not ended their difficult situation. Furthermore, realized profits continued to drop by 9.8 percent in October and November. Therefore, we should take a cautious and fact-finding attitude when assessing the current status of enterprise operations. During the previous two phases of rectification and consolidation, industrial production continued to develop when demand started declining, and then bounced back before demand did. In addition, current growth trends continued at a faster speed than demand so that it became difficult to absorb a large inventory of industrial goods, which accumulated during the period of rectification and consolidation, and the accumulation continued. This has formed a huge capital burden too heavy for the enterprises to bear. Similarly, the heavily overloaded industrial economy was unfavorable to the task of improving economic performance. By the end of November 1991, the inventory of finished industrial goods made under budgets totalled 126,700 million yuan, an increase of 12,700 million yuan when compared to the beginning of that year and a long way from realizing the target of cutting that year's industrial inventory down to 20,000 million yuan. By the end of November, the amount of working capital loans to industrial enterprises was as much as 565,100 million yuan, or 51 percent of enterprises' working capital by the end of the previous year. In 1991, the amount of interest paid to banks by industrial enterprises would be over 55,000 million yuan. This indicates that more than 10 percent of the value generated by industry was drained out of the sector.

## 3. Preferences in the distribution of national income were intensified.

Another factor that affected the performance of the industrial economy was high speed, which meant high input, including input of labor materials and human labor. While the former refers to labor transfers in the previous phase, the latter refers to a portion of additional labor which simultaneously took place through different forms, such as the payment of workers' wages and bonuses. Nonetheless, no product should be reimbursed once it has become overstocked and unmarketable, be it transferred value or additional value. In the past, we saw that when growth in industrial production reached 5 percent, we would achieve growth in industrial profits or financial revenues. However, beginning in the fourth quarter of 1990, industrial production continued to grow in double digits while the performance of the industrial economy was unsatisfactory, profits dropped, and financial difficulties were still serious. This was because our analysis had become divorced from the realities of the economy, which had changed. Under circumstances in

which the economy was characterized by shortages, growth might be safeguarded when there was a sufficiently large market demand to support high-speed growth in production and the "effects of price increases" could use the opportunity to exercise their role. For example, let us take industries controlled by the budget. In 1985, their annual growth in output was 12 percent, in sales revenue 16.4 percent, and realized profits 10.7 percent (after making adjustments for the substitution of profit delivery by taxes). In 1988, their annual growth in output value was 10.7 percent, sales revenue 22.4 percent, and realized profits 14.1 percent. The actual situation was that demand was not great enough to support such high-speed growth, so not only was a growth performance absent, so too were the "effects of price increases." It thus became natural for performance to diminish when we continued to rely on increasing growth speed as a means to improve performance. Therefore, in addition to having a blocked production cycle and overstocked products, growth in wages, costs, and interest payments also developed. While consumption funds and interest payments grew simultaneously, the performance of industrial enterprises dropped, and state and enterprise revenues were reduced. This further intensified the irrational situation regarding the distribution of national revenue. According to statistics from some 20,000 industrial enterprises owned by the whole people in 77 key cities, in the first nine months of 1991, growth in production was 9.2 percent and growth in workers' wages was 13.1 percent, including 20.5 percent growth in bonuses. Because the enterprises already had to withstand a decline for several years in a row, their retained profits further dropped by 8.8 percent and the amount of profit delivery was reduced. In 1990, total wages paid to workers, and the amount of interest paid by industrial enterprises at and above the county level were respectively 32.9 percent and 1.2 times higher than in 1988, and higher than the 20 percent net output growth in industry for the same period by a large margin (calculations were made on the basis of present values). Their proportion in the net industrial output value grew respectively from 22.6 percent and 5.9 percent to 25 percent and 10.8 percent.

#### 4. A long-term economic burden has developed.

Of industrial enterprises inventories at and above the county level, which are currently worth more than 200,000 million yuan, overstocking accounts for about 40 percent. As time goes by, the value of this portion of the products will decline when its value of usage drops. For a period of time, analyses on the presence of overstocked industrial goods mainly focused on the utilization of funds for producing such industrial goods. In reality, however, for a variety of reasons, this portion of funds could no longer reflect the overstocking of these industrial goods. According to statistics from 40,000 state-owned industrial enterprises, which accounts for 50

percent of gross industrial output value at and above the county level, of the three types of funds at the end of September 1991, the amount of shipped commodities and receivables and payments made in advance accounted for 228,800 million yuan of funds. Their proportion to the amount of funds in the form of goods under production and finished goods increased from the normal level of 1.27:1 to 1.71:1. Furthermore, the amount of funds in the form of goods under production, as well as finished goods, was about 50 percent more than the normal level. The total of these three types of funds exceeded the normal level by about 200,000 million yuan, or about one-quarter of the total amount of working capital, which was much higher than the overstocked goods under production and finished goods. People continue to remember that after our economic readjustment concluded in the early 1980's, the value of scrapped and reduced value mechanical and electrical goods alone was as much as 15,300 million yuan in 1983, which brought heavy losses to enterprises and to the state. Compared to the scale of the economy of the 1980's, the current one is larger by several times so one can easily visualize the seriousness of the problem. With respect to the contradiction between the huge amount of overstocked industrial goods and the credit funds occupied by such goods, some people hold that from the perspective of safeguarding funds through materials, the risk of bringing about inflation is not worth excessive emphasis. They ignore the fact that the important difference between the production and realization of industrial goods was the market. Funds in the form of goods under production and finished goods were calculated according to production needs. Whenever the goods went through the process of production and were put in stock as finished goods, such goods would be counted as funds in the form of finished goods. Moreover, in reality, the amount of shipped commodities, including receivables and payments made in advance, did not equal the amount of actual sales. Whether or not we could collect this portion of funds and whether we collect the funds according to original values or according to values lower or higher than the original one could be determined only after we had exchanged such goods in the market and such goods were acknowledged by customers. After we carried out reforms, additional sources of working capital for enterprises were switched from financial allocations to bank loans. Thus, whenever goods that had long been overstocked were scrapped, canceled, or depreciated for natural reasons, there would be a serious problem regarding the repayment of that portion of bank loans that had been used to produce such goods. This portion would either be borne by enterprises, banks, or the state; that is, borne through financial means or transferred to consumers through inflation. Therefore, we must attach proper attention to the potential risk of inflation relating to current industrial goods, which is caused by asset losses because of overstocking, unmarketability, and scrapping.

5. It became more difficult to exercise macroeconomic readjustment.

The fast growth in industrial production has not stopped since it started in the fourth quarter of 1990. Consequently, not only did the growth intensify the inflexibility and operational conflicts of the industrial economy itself, it also made it more difficult to exercise macroeconomic readjustment and control. First, a large amount of working capital loans to industries was inputted in order to maintain production growth and the composition of loans thus became irrational. Beginning in the fourth quarter of 1989, the amount of working capital loans to industries accounted for 27.2 percent of newly approved loans, which was obviously higher than the proportion of loans to agriculture and fixed assets loans. Stockpiling, which has become very serious at present, made it more difficult for us to readjust the composition of loans. Second, since the growth of industries went out of control and operations were poorly run, the state shouldered a heavy burden in increasing its expenses while financial revenues dropped. All kinds of profits, taxes, and fees, except for taxes on circulation, dropped each year, but state financial allowances to deficit enterprises gradually increased. In the first 11 months of 1991, the amount of allowances allocated to industrial enterprises to subsidize losses increased by 18.4 percent when compared to the same period of the previous year. Such increases were as much as 2.1 times in November, which was not only higher than that of commercial and food enterprises but also ranked first in terms of scale. There is no doubt that such a decrease-increase situation intensified the difficulties. Third, in recent years the focus of macroeconomic policies has been on economic growth, particularly growth in industrial production, so that policies were repeatedly implemented in sequence. The period between October 1988 and September 1989 was one of austerity to check high-speed growth; the period between October 1989 and September 1990 was one of restoring growth in which a relaxed attitude was adopted to promote production; the period between October 1990 and September 1991 was that of readjustment to maintain appropriate growth in production; and the period after October 1991 was again that of austerity so as to check excessive growth in production. As we had too many things to tend to at the same time, such a repetitive implementation of policies not only failed to solve the basic problems concerning the industrial economy, but also missed many chances to deepen reforms, including chances to implement a structural readjustment which was put forward shortly after the work of rectification and consolidation started, and the opportunity to switch from a growth-driven pattern to a performance-driven one. In particular, each time we restarted growth after a period of austerity, the cost of exercising macroeconomic readjustment and control increased, thereby weakening the effects of readjustment and control.

### III. Countermeasures

We have made achievements in the work of rectification and consolidation and in deepening reforms. In particular, over the past 11 years, we have strengthened economic development and economic strength. The changes we have made in the economic structure and the readjustments we have made in the distribution of productive forces and of resources have allowed us to break the traditional system of macroeconomic management, which mainly focused on administrative orders, so that from the system of macroeconomic management to the means of macroeconomic readjustment and control, we must make corresponding readjustments and changes. In the wake of the emergence of new changes in the transformation of the economic mechanism, economic operating mechanism are changing from the pattern of 40-odd years, which was marked by shortages, to a new pattern characterized by the coexistence of oversupply and shortages. Compared to the conditions of a shortage economy, this not only gives more room to further deepening reforms, but is also favorable to promoting new reforms by making use of macroeconomic levers. We should realize that through rectification and consolidation, a considerably relaxed macroeconomic environment has indeed developed and we must treasure it. Currently, it is not necessary for us to pay excessive attention to microeconomic operations. Instead, we should keep a little bit aloof and take the opportunity to speed up reforms. First, we should start reforming the system of macroeconomic management and use this to put an end to the long-standing situation in which our macroeconomic management gradually became ineffective because we did it mainly through administrative orders or by simply relying on such economic means as fiscal deficits and credit expansion. In view of the current problems in the operation of the industrial economy, it has been suggested that we should adopt corresponding macroeconomic policies and measures in the following aspects.

(1) We should speed up changes in the function of macroeconomic management to invigorate microeconomic operations.

Reforms in the economic structure brought about the development of manifold economic constituents. This indicated that the microeconomy was further invigorated, while symbolizing a diversification of economic management. As the decision-making power of enterprises has become more important on the daily agenda, it is inevitable that the ownership of enterprises should be separated from its operational rights. Therefore, it is inappropriate to carry out acts that continue to strengthen the direct management by the state and that involve enterprise operations including settling debts, restricting production, and determining product variety and enterprise quality through the State Council. The direction of reform of the system of macroeconomic management should be that while we consolidate and strengthen the management of basic industries and key products that have an important bearing on the national economy and the people's livelihood, we should appropriately readjust the management system in the direction of transforming our system of macroeconomic management into a scientific and effective one that conforms to

China's situation, and change the state's practice of excessive direct economic intervention and direct participation in production and operations to that of indirect readjustment and control through macroeconomic levers such as interest rates, exchange rates, tax rates and pricing so that the scope of macroeconomic readjustment and control is on an overall scale rather than in certain key areas. At present, we should particularly readjust the excessive policy restrictions on industries owned by the whole people, and help them compete under the same conditions facing industries of other economic types. Of course, the requirements for indirect macroeconomic readjustment and control are much higher than those for direct ones, which is also the general trend in developing a planned commodity economy.

2. We should make use of our limited funds to speed up the readjustment of the industrial composition.

In the wake of economic development, economic interests have become diversified. It is an inevitable trend for the proportion of GNP solely supported by the state to drop. But this does not indicate that the power of the state will be abandoned or the interests of the state will be weakened. Through its right to readjust fiscal affairs, we may still achieve the goal of safeguarding the interests of the state and consolidating the power of the state. In order to realize the long-term, stable, coordinated, and healthy development in the macroeconomy, the urgent task at present is to speed up readjustment of the economic structure. Judging from the present situation, it is inevitable that there will be problems if we weaken or abandon the functions of macroeconomic readjustment and control or excessively depend on localities and enterprises to readjust the structure. For instance, we made mistakes in starting color television production lines without careful planning. At present, the same situation has emerged again in the production of color picture tubes. By the end of 1995, production capacity may reach 20 million. By then, half of capacity will lie idle, or an equivalent of 10,000 million yuan of investment will yield nothing. Losses this time will be greater than the last by a large margin. Under actual conditions, however, it is no longer appropriate for the state to continue to financially undertake key production construction and technology transformation projects. Because of a lack of capital, we cannot start key construction projects or continue to run core enterprises, and may fail to readjust the composition of industries. Judging from the practical point of view concerning key construction and technology transformation, if we ease, in the course of implementing policies concerning industry, the conflict between the supply of and demand for funds by making use of investment in key construction projects controlled by the state plan, which is around 37,000 million yuan per year, to undertake key construction projects and technology transformation, the scale will be limited and progress will be slow. However, if the state invites tenders and raises funds from localities, enterprises, and foreign investors, it may

do more work with limited investment. If it invests in the form of discounted loans or entirely in the form of discounted loans at an average interest rate for basic construction loans of 9.36 percent, the sum of 37,000 million yuan could rise annually to about 400,000 million yuan of funds, or about 80 percent of current investment in fixed assets. This would inevitably sharply boost the capability of macroeconomic readjustment and control and the results of implementing policies concerning industries would also be sharply improved.

3. We should appropriately promote pricing reform in industrial goods and strengthen reserve strength for developing basic industries.

Price reform is an important condition for rationalizing relations in an industrial economy and for readjusting the composition of industries. Under circumstances in which there is a shortage economy, we had little chance of success in price reform, but developed a high risk of inflation. After the economic mechanism went through the above-mentioned changes, however, aggregate supply became relatively relaxed and high demand eased so that prices steadied on the market. In 1990, the ex-factory price index for industrial goods was 104.1 percent, in which its rate of increase dropped by more than 10 percent when compared to the previous two years. At present, inventories of most means of production are abundant and price increases are modest, which means that the price of a considerable quantity of budgetary production means is more or less the same as non-budgetary ones, or is even higher than non-budgetary ones. It has been suggested that we should take this opportunity to speed up the pace of price reform in industrial goods and should put an end to the past approach of "fixing here and there" with respect to industrial goods prices. Between 1985 and 1990, ex-factory prices for industrial goods in the excavation industry increased by 54.6 percent, industrial goods for the raw materials industry increased by 60.8 percent, but industrial goods for the processing industry increased by 59 percent so that the prices of goods for basic industries and goods for processing industries were still dislocated within industry. Basic industries did not have sufficient reserve strength for development. In particular, two major energy resources industries, namely coal and oil, each sustained losses. Therefore, after the implementation of the state's policies towards industry, we should first start reforming the prices of the means of production and liberate prices of basic industries' goods, such as energy resources, raw materials, and so on, in the market. By rationalizing prices, we should, on the one hand, fundamentally strengthen the economic strength of basic industries and realize the goals of the state's policies towards industries, the major benefactor of which will be large and medium-sized enterprises. On the other hand, this will force downstream industries to improve their product quality, improve their production technology, strengthen their management, and substantially expand reproduction by strengthening their understanding in reducing their consumption of raw materials

and energy. This is another way of preventing the processing industries from blindly expanding their production capacity or losing control of their production scale, which is caused by an excessively high profit margin.

4. We should concentrate our efforts on opening up operations in order to invigorate large and medium-sized management.

Large and medium-sized enterprises are the core of the national economy as well as the pillar of the socialist economy. Nevertheless, their production and operations have become increasingly difficult with each passing day. While we are implementing various measures for invigorating large and medium-sized enterprises, we should first solve a problem, namely, the production and operations of large and medium-sized enterprises have long been carried on in an unfair competitive environment. When we carried out rectification and consolidation, it was always industries owned by the whole people, particularly large and medium-sized enterprises, that were subject to the restrictions of our macroeconomic directives, readjustment, and control in every aspect. In other words, they were the ones that had to withstand various macroeconomic policies. Consequently, the production and operations of these enterprises became increasingly difficult with each passing day. We have to draw lessons from this experience. When we recently imposed limits on production and inventories, the productivity of industries owned by the whole people and large and medium-sized enterprises dropped first, and the rate of decline was remarkably higher than for any other industries. Therefore, in invigorating large and medium-sized enterprises, we should ease their social and economic burdens and create through our economic policies a relatively steady and a fair competitive environment. They can be invigorated only when we thoroughly open them up. At present, in addition to the fact that large and medium-sized enterprises are subject to high tax rates, their net fixed assets value is only 69.4 percent, which is about 3 percent lower than the average rate for collective enterprises and small enterprises. Their overall depreciation rate is only 4.21 percent, which is 1 to 2 percent lower than the average rate for collective enterprises and small enterprises. We must put an end to this situation. When readjusting tax rates, we should make use of leverage through interest rates and the inventory-interest difference. Instead of reducing interest rates, we should work in accordance with policies toward industry and adopt a series of interest rates for different enterprises. We should offer favorable tax rates, interest rates, and depreciation rates to large and medium-sized enterprises, particularly basic industries

and pioneering industries. This approach will certainly work if we continuously implement it for 10 to 20 years.

## FOREIGN TRADE, INVESTMENT

### Beijing To Buy Goods From Switzerland

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[Text] Bern, June 29 (XINHUA)—China will purchase goods worth of more than 60 million U.S. dollars from Switzerland, Chinese trade officials said here today.

The purchase is included in contracts which were signed and those to be signed between the Swiss and Chinese businessmen. It mainly involves the areas of machinery, instruments, textile machines, watches, according to the Chinese purchasing delegation for Europe.

Jean-Pascal Delamuraz, head of the Swiss Public Economic Department, expressed his gratitude and welcome to them when he met the delegation headed by Gan Ziyu, deputy minister of the Chinese State Planning Commission.

Delamuraz said that his country paid great attention to the economic and trade relations with China as it is a country with fastest growing economy.

Furthermore, he added that the main economic and trade links of his country with Asian nations are mainly with China.

Trade between Switzerland and China develops very quickly these years. Last year, the bilateral trade volume has reached a record of about 600 million U.S. dollars, according to Swiss custom sources.

Earlier today, Nicolas Imboden, delegate of the Swiss Government for Trade Agreements, met Gan Ziyu and other Chinese officials over developing bilateral trade.

Imboden told Chinese trade officials that the Swiss-Chinese trade relations are mutually complementary, adding that the delegation's visit to Switzerland is very important to the development of bilateral trade.

A big Swiss delegation, headed by Delamuraz, and including businessmen from more than 30 major Swiss enterprises, will visit China next month.

Gan said that this coming visit to China and the visit by the Chinese delegation will facilitate Sino-Swiss trade relations.

The Chinese delegation arrived on June 26 and will leave for Austria on Tuesday.



### Effect of Multifiber Agreements on Textile Trade

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[Article by Peng Yuanxun (1756 6678 6061): "Multifiber Agreements and China's Textile Trade"]

[Text] I. The Multifiber Agreement is a special trade system under a special department of the GATT. It is an agreement reached to control textile trade between developed nations which import textiles (including apparel, same below) and developing nations which export textiles. In other words, it is talks about the quota of textiles imported by industrialized nations from developing nations. When the textile import of a nation causes confusions in its domestic market, under the restraint of many strict rules and multi-party supervision, the protective clause of the Multifiber Agreement allows limiting the import of textiles. Since this agreement violates the 11th provision of the GATT which stipulates that all signatories should be given the same tariff treatment and that quantitative restrictions be lifted, it has in fact become a means used by developed nations to permanently protect the interests of their domestic textile industries. By ensuring an orderly development of their textile industries, they have guaranteed the predictability of trade and avoided unilateral restrictions.

Currently the volume of textile trade in the world is near \$200 billion. Two thirds of this is exported by the 41 member nations of the Multifiber Agreement (the European Community is considered as one member nation). Up to one third is exported from developing nations to developed nations. Because of this, the development of textile production and export plays a vital role in the course of industrialization in many developing nations or regions, and the liberalization of textile trade will also substantially accelerate textile trade throughout the world, but there is still no strict and effective multilateral free trade agreement in this area. Due to this and upon the strong demands and efforts of developing nations, textile trade was included in the topics for negotiation in the Uruguay Round of the GATT. The purpose of this was to work out, in accordance with the enhanced rules, regulations, and disciplines of the GATT, a method to include this sector in the GATT, thus helping realize the further liberalization of trade. After several years of negotiations, a draft of textile trade agreement was completed. Its basic framework is to use the Multifiber Agreement as the basis for integrating textile trade into the rules and regulations of the GATT gradually and in different phases while accelerating the liberalization of textile trade by gradually increasing growth. But an official agreement has not been reached yet.

The Fourth Multifiber Agreement was originally to expire at the end of July in 1991, and the new agreement reached at the textile trade talks of the Uruguay Round was to be used to establish a new trade order. But because the Uruguay Round had failed to close according to the original schedule in December 1990, the textile

committee of the Uruguay Round decided to extend the Multifiber Agreement for another 17 months, namely from 1 August 1991 to the end of December 1992. The negotiation results of the Uruguay Round will take effect after that. About 10 years of time after 1 January 1993 will be used to gradually abolish in four stages textile trade quotas and carry out free trade. Currently the negotiation has entered into the last stage. In December 1991 the GATT made arrangements in the agreement regarding the progress of each stage in eliminating textile trade quotas and as to which textile trade quotas to eliminate in each stage. The results of this negotiation will have an enormous and direct effect on the gains and losses of all nations engaged in textile trade.

II. China is a large textile exporting nation. Since it joined the Multifiber Agreement in 1984, its textile exports increased steadily. Since 1986 textiles have become China's No. 1 export commodity. Textile exports reached \$8.29 billion in 1986 and totalled about \$13 billion in 1988. In 1989 China's textile exports were around \$15 billion, accounting for over a fourth of China's total exports and about 8 percent of the world's total textile exports. China ranked fourth in the world and became one of the 10 largest textile exporting countries and areas in the world.

Hong Kong is the largest market for China's textile exports. It accounts for over 30 percent of China's textile exports. According to the statistics of the Hong Kong Government, China's textile exports to Hong Kong in 1990 reached 62.099 billion Hong Kong dollars, accounting for 63.2 percent of Hong Kong's total textile imports. Of this, 56.327 billion Hong Kong dollars or 90.7 percent were entrepot trade transferred mainly to the markets of the United States, Japan, Australia, and Thailand. The United States is the second largest market for China's textile exports. In 1989, China exported \$3.079 billion of textiles to the United States, accounting for 25.68 percent of China's total exports to the United States and 20.5 percent of China's total textile exports. In 1990, the above figures were \$3.526 billion, 23 percent, and 20 percent. The EC is the third largest market for China's textile exports. In 1988 and 1989 China's textile exports to the EC were \$1.768 and \$1.77 billion, accounting for 36.4 and 36.25 percent of China's total exports to the EC and 13.6 and 11.8 percent of China's total textile exports in the respective years. Other major markets of China's textile exports include Canada, Japan, and Thailand.

Textile trade occupies an important strategic position in China's exports. The net foreign exchange earning ability of textiles is high, so textiles are an important source of foreign exchange income for China. In 1989 China exported \$15 billion of textiles and imported \$5 billion, netting about \$10 billion of foreign exchange. With a low labor cost, China's textile industry has a certain comparative advantage in the international market, but the returns of China's textile exports are not very good. The main reasons are: The volume of textile exports has been increasing substantially but the unit price of export has



been declining year after year. The ratio of raw materials and semi-finished products in the export structure is too great, about 60 percent. There are too many textile export companies. Due to a loss of macroeconomic control, these companies compete with each other by lowering their own prices, thus allowing foreign investors to benefit enormously from the process. They also compete with each other for the quota of textile export and scramble to be the first to export more than what is allowed by the quota. The markets of textile export are overly concentrated. They are not conducive to expanding the volume of trade.

In addition, the advantage of China's textile industry, which is achieved by relying on raw material resources and low labor cost, will gradually diminish. Along with the advancement of science and technology, the textile industries of some industrially developed nations have switched from labor-intensive to capital- and technology-intensive industries, and the textile industries of some newly industrialized countries and areas have sprung up one after another, causing the competition of international textile market to become increasingly acute. Currently the fiber cost of China's textiles is close to the international price and the percentage of wages in the production cost of China's textile industry has been increasing year after year (from about 5 percent in the past to over 9 percent); whereas this percentage of some enterprises which have adopted new technology in industrially developed nations has been declining year after year (from about 20 percent in the past to below 5 percent). The average foreign exchange earning of China's textile export per ton of fiber is only about one half of that of industrially developed nations. The percentage of ready-made clothes of developed nations is usually between 80 and 90 percent, but it is less than 30 percent in China. China's textile exports to the United States ranks first in volume but sixth in price. This shows that the quality of products on the international textile market, especially the content of technology and the degree of processing, has increased and the cost of production has declined continuously. It shows that the number of high-grade products and new products which can grow at a high rate and earn a large amount of foreign exchange is increasing each day. This is a serious challenge to expanding China's textile exports. III. About 50 to 60 percent of China's total textile exports are exports (including entrepot trade) to areas with quotas. Because of this, abolishing the Multifiber Agreement and relevant bilateral agreements will have a definite effect on China's textile industry and exports.

In the short run, abolishing the Multifiber Agreement and relevant bilateral agreements will have some unfavorable effects on China. First of all, although China's textiles have a definite advantage regarding the cost of labor, it is gradually disappearing. The quality of China's textiles is poor, processing primitive, technological content low, and added-value small, so they are not very competitive. They are less competitive even than the textiles of India and Pakistan. Under this circumstance,

the quota restriction imposed on China by some importing nations gives China's exports an insurance. So, the quotas actually protect China's textile exports. If such quotas are eliminated and free trade is carried out, competition among suppliers must be very acute and it will be unfavorable to China's exports. Even during the transitional period when a global quota system is carried out according to the U.S. proposal, it would be very difficult for China to compete with other countries. So it will also affect the expansion of China's textile exports. Second, after the Multifiber Agreement is abolished, the safeguarding clause of the GATT will be enhanced to regulate and control international textile trade. However, the safeguarding mechanism has not been decided yet. Some people favor non-discriminatory safeguarding clause; others favor selective safeguarding clause. If the selective safeguarding clause is adopted, it is hard to eliminate the possibility of imposing certain limits on several large supplying nations (including China). This will put China in an unfavorable position. However this is true only on the premise that China joins the GATT. If the Uruguay Round ends and China cannot restore its status in GATT, the enhanced GATT rules and regulations adopted after the Multifiber Agreement is abolished will not apply to China, and China may be subject to individual restrictions. By that time China's textile exports will be restricted by bilateral agreements. China will not be able to get the kind of treatment enjoyed by signatories and therefore become even less competitive. This is unfavorable to China's exports.

Of course, even after the Multifiber Agreement is abolished, it is still impossible to carry out completely free trade of textiles. Because of this, the order of commodities in which the quota restriction is lifted during the transitional period is also very important. As far as China is concerned, it is better to list more competitive textiles in the early stages and less competitive textiles in the later stages. In other words, it is better to liberalize first natural fibers and then cotton fabrics, apparel, and chemical fibers. This is favorable to China. If the arrangement of the final agreement of the Uruguay Round differs from this order, it will adversely affect China's exports in the transitional period. In addition, although it is possible that the export restriction of most textile exporting developing nations will be lifted during the transitional period, the transitional period also has a safeguarding mechanism to ensure an orderly enforcement and progress. China again will be one of the nations subject to restrictions. This will also adversely affect China's textile exports.

However, in the long run, abolishing the quota restriction of the Multifiber Agreement to allow fair competition among exporting nations will be conducive to expanding China's textile exports. This is because, based on the analysis of "comparative profits," China has definite advantages and export potential now and in the future. Judged from the long-term point of view, the markets of developed nations are the main markets for the circulation of textiles. Although the textile industries

of some nations are gradually switching to capital- and technology-intensive, most basically remain labor-intensive. Since science and technology develop relatively fast in developed nations, their labor resources are scarce in contrast. In order to seek greater profits, industrial monopolies will inevitably readjust their production structure to develop technology- and capital-intensive industries and transfer textile and other labor-intensive industries (especially medium- and low-grade products) to developing nations. Such transfers started long time ago. Based on the degree of industrialization, such prolonged transfers will take place across the centuries from post-industrialized and matured industrialized nations to nations where industrialization is being or have not been carried out. Along with such transfers, the focus of textile production and imports has been gradually shifted to the side of developing nations whereas developed nations have gradually become basically textile importing nations. After the Multifiber Agreement is abolished, China, as a large textile exporting nation, can take the opportunity to occupy more import markets of developed nations before other developed nations have a chance to do so.

In addition, China's textile industry also has definite advantages. Since the founding of the PRC, China's textile industry has made great progress. By the end of 1988, cotton spinning equipment increased to 31.54 million sets, equivalent to 3 times of the total number accumulated in the 60-year period before the liberalization. The equipment and capacity of wool, hemp, and silk production were 17.5 fold, 23 fold, and 19.5 fold respectively of those before the liberalization. Currently China's cotton spindles, cotton spinning machines, printing and dyeing capacity, silk reeling capacity, and silk machines rank first in the world. China's wool and hemp spindles rank second in the world. China has become the fourth largest chemical fiber producing nation in the world. In 1988 the output of China's cotton yarn, cloth, and silk products all rank first in the world. Medium- and high-grade products and chemical-fiber products increased even more rapidly. Currently the chemical-fiber industry accounts for 29 percent of the total textile industry and ranks third in China's textile industry. Therefore, after the Multifiber Agreement is abolished, China can give full play to its advantages and strive to expand exports.

Also, after the quota restriction of the Multifiber Agreement is lifted, China not only can export to markets without quotas but also can expand markets to developed nations which now have quotas, whose sales prices are more reasonable, and whose capacity is larger. China also can open up its own export markets. This is conducive to expanding its exports. IV. The purpose of predicting and facing up to the serious challenges and golden opportunities to be brought about by the abolishment of the Multifiber Agreement is to formulate correct strategies to continuously expand the production and export of China's textiles and to accelerate economic development.

The liberalization of textile trade must be carried out step by step in different phases. Therefore we need to make full use of the transitional period to do a good job. In the past China's textile export departments were used for quota control. Once quotas are eliminated, it will probably be difficult for them to adapt. Because of this, we need to carry out propaganda ahead of time. We need to carry out extensive propaganda not only in foreign trade departments but also in all departments and export-oriented enterprises. In light of deepening the foreign trade structural reform and in accordance with the principles and rules and regulations of the GATT, we should continue to readjust and consolidate each and every link of China's textile exports so as to increase flexibility and international competitive standards.

Since quotas will be gradually eliminated during the transitional period, we should allocate and utilize limited export quotas rationally and in a scientific manner to achieve the optimum results. Due to this, first, we need to multiply the value of quota commodities. Generally speaking, the textile import quotas of developed nations limit only quantity, but not dollar amount. Because of this, we can upgrade textile exports and raise their unit prices through precision and multiple processing. Namely we can increase the added value of the same commodities and thereby increase the foreign exchange income of exports. Second, we should strengthen the overall control of quotas to avoid and change the in-fighting and egalitarianian phenomena in the allocation of textile export quotas. Quotas may be controlled at two levels. The Ministry of Economic Relations and Foreign Trade can allocate and readjust quotas in a unified manner, and local economic and foreign trade departments (bureaus and commissions) can issue permits. The procedure is that, first, foreign trade companies and production enterprises which are authorized by the state to engage in export operations will submit truthful applications. Then the Ministry of Economic Relations and Foreign Trade will issue quotas in accordance with the actual export achievements and management ability of these applicants in the previous year as well as the continuity and price level of exports. Then all localities will supervise and enforce the quotas through the issuance of permits. We should also strictly control issues concerning the borrowing, retention, and returning of quotas, readjust quotas annually according to circumstances to prevent low-quality utilization and abandonment of quotas and to optimize the use of limited quotas.

Further resolving the problem of similar textiles scrambling for quotas calls for adapting to the international textile market after the elimination of quotas. We should begin in the transitional period to pluralize export market, including pluralizing export areas, export commodities, and management methods. First of all, we should open up markets in all directions, instead of limiting ourselves to the quota market. The demand of Hong Kong, the United States, and Europe for Chinese textiles has been stable with a slight increase. There is a great potential for development. We should consolidate and expand these markets. But at the same time we should also strengthen the exploration of other markets. For instance, the eastern market of the former Soviet is a market of great potential, which has attracted the

attention and interest of the "four little tigers" of Asia. Although they have become our rivals, we cannot give up this market. Instead, we must strengthen the investigation and study of this market and adopt flexible and multifarious trade methods to win in the competition. Second, we should pluralize export commodities. China's textiles have such problems as low grade and non-optimized structure as well as such problem as limited variety. Statistics show that in 1990 China exported to Hong Kong only 75 of the 408 major textile goods whose value was over 10 million Hong Kong dollar. The total value of the import of the 75 items was 19.014 billion Hong Kong dollars, but China's exports only amounted to 1.208 billion Hong Kong dollars, about 6.4 percent. Because of this, we must increase the variety of commodities and continue to develop new products. Third, we should pluralize management methods. We should carry out multi-level and multifarious trade, strengthen bilateral and multilateral trade, and stress entrepot trade. In addition, we can also expand textile exports by adopting a method to go around the non-tariff barrier restriction. In other words, the state should pay attention to building some transnational textile enterprises, make selective investment in areas where economic integration may be possible in the future, and concentrate efforts to invest in the major markets for China's textile exports. For instance, the United States put more and more restrictions on the quota of China's textile exports. The growth rate of China's exports to the United States has dropped to 3 percent. As many as 146 kinds of commodities are restricted. Recently the United States listed some of China's textiles as taxable items. Because of this we should step up our efforts to invest and build plants in the United States and its surrounding areas. The essence of this is to "surmount tariffs" and go around the restrictions of quota. We also can adopt the method of investing and building plants in the free trade and processing zones of importing nations. For instance, grey cloth produced in China can be printed, dyed, and given finishing treatment in the free trade and processing zones of importing nations.

In addition, we should take the initiative to demand arrangements in the agreement that is favorable to China in the transitional period. For instance, regarding the order of elimination of quota commodities, we should demand that the quota of commodities over which China is fairly competitive be eliminated first, followed by those commodities over which China is less competitive. Regarding the transitional period, we should try to demand that it be longer. Regarding the acceptance of the "safeguarding mechanism" in the transitional period, we should demand that it be conditional. Namely it must conform to the principle of non-discrimination and be favorable to expanding the entrance to export commodity markets.

Judged from a long-term point of view, we must start with raising the quality of commodities, optimizing the structure of textile export commodities, reducing the

cost of production, and establishing group competition organizations suitable to the needs of international market competition mechanism. Under the condition that the quota system is being dismantled and the world trade protectionism is growing day by day, an important way to expand textile exports is to shift products to high quality and high grade and to optimize the structure of export commodities. For instance, China's textile exports to Hong Kong are mainly goods of simple processing and medium and low-grade. Their sales prices are relatively low. About 40 percent of exports are cotton, yarn, and semi-finished products, and 60 percent are finished products and apparel. Recently the quality of China's textile exports has improved, but due to a higher cost of foreign exchange, the prices of exports are higher and have become increasingly close to the prices of competitors. If we fail to improve our quality, our ability to compete will be weakened. Because of this, we must upgrade as soon as possible existing export varieties, vigorously develop export products of precision and multiple processing, and enable China's textiles to realize greater variety, small quantity, and fast delivery and to develop in the direction of medium- and high-grade products.

At the same time we should fully realize the trend that China's low labor cost advantage is disappearing. On the basis of fully utilizing existing limited labor advantage, we should continue to improve management and administration, increase labor productivity, and reduce production and marketing costs to increase the competitiveness of China's textile exports.

In addition, in order to expand textile exports, we must also strengthen the macroeconomic control of textile exports, establish group competition organizations suitable for market competition mechanism, and develop the advantage of competing as a whole. Currently there are too many export companies in China. They are poorly managed. Besides, apparel and knit products are the third category of China's foreign trade which can be traded not only by specialized textile companies but also by other companies. This has resulted in a loss of macroeconomic control, causing domestic companies to compete with each other by lowering prices and thereby allow foreign investors to benefit in between. The phenomenon of substandard goods flooding the market is quite serious. This has affected not only exports to non-quota areas but also exports to quota areas. For instance, after processing (multiple or primary) importers will export the products exported from China to the United States using local quotas or other non-quota methods. But the United States uses the country of origin as the principle for calculating quotas. Once the United States finds out that the country of origin of the product is China, it will take away China's quotas and seriously affect China's U.S. exports. Because of this, it is extremely important to strengthen the macroeconomic control of textile exports. We should organically combine the macroeconomic centralized management with the microeconomic decentralized management of textile

exports, and carry out the principles of unified management, integrated operation, and united front in dealing with foreign nations. For instance, companies of different categories which have the authority to engage in textile export operations may be organized to take responsibility for coordinating export prices, markets, and clients so as to increase the ability of textile export companies and production enterprises to compete internationally. At present, it is especially imperative to establish a unified coordinating organization for exports to Europe, because after the unified European market is formed in 1992, border control and technical trade barriers within the EC will be eliminated and technical specifications and product standards will be unified. At the same time, unified EC quotas will replace individual national quotas, thus worsening competition and increasing the difficulty of exports to Europe. Because of this, we must establish European coordination organization to counter "unity" with "unity" and quickly solve the problems caused by the unification of European market to the development of textile trade with Europe. We should regain the initiative. Another effective way to increase the competitiveness of China's textile export is to develop enterprise groups to give full play to the advantage of competing as a whole. Promoting and stabilizing production of suitable scale should be considered as the basis, products as the pillar, and exports as the orientation for establishing enterprise groups. Export companies and production enterprises which are authorized to engage in textile export operations should be considered as the core. While extensively developing trade coordination organizations which are integrated to varying degrees and concentrate on systematic production and service, we should establish large management entities which integrate supply, production, marketing, scientific research, and service to increase the ability of China's textile exports and production to compete internationally and to adapt to the international textile market where competition will become more acute after the abolishment of the Multifiber Agreement.

#### **MOFERT Journal on Sino-U.S. IPR Dispute**

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[Article by Yu Shanping (0151 3790 5493) and Pan Jinhu (3382 6855 5706): "Background and Insight Into the Sino-U.S. Intellectual Property Rights Protection Dispute"]

#### **[Text] Economic Forum**

On 17 January of this year, China and the United States signed a memorandum of understanding in Washington on the protection of intellectual property rights. In the memorandum, China and the United States clearly indicated that, from the date of the signing, the investigation of China initiated on the basis of the special Article 301 of the United States 1988 Comprehensive Trade Act, would be terminated, the designation of China as a

so-called key unfair trading country would be cancelled, and the trade sanctions against China would be abandoned, thereby granting a temporary respite to the three-year Sino-U.S. intellectual property rights protection dispute.

Now that the situation is over and circumstances have changed, people cannot help but ask, "What is the background on the Sino-U.S. intellectual property rights protection dispute and what insight do we get from this dispute?" These reporters intend to look into this issue.

#### **I. Background on the Sino-U.S. Intellectual Property Rights Protection Dispute**

There are two aspects to the background on the Sino-U.S. intellectual property rights protection dispute:

##### *1. The Slumping and Declining U.S. Domestic Economy*

In the last two years, the U.S. domestic economy has gone into a period of slump and decline manifested by a rising unemployment rate and falling principal economic indicators:

—The General Accounting Office of the U.S. Congress pointed out that the United States budget deficit was US\$268.7 billion in 1991.

—The United States unemployment rate reached as high as 7.1 percent by the end of 1991 and the average unemployment rate for 1991 rose to 6.7 percent, 1.2 percent higher than the 5.5 percent unemployment rate in 1990 and the highest since 1986.

—The United States eleven principal economic forecasting indicators fell 0.3 percent in November 1991, making it the greatest fall since the 0.6 percent decline in January 1991. These economic forecasting indicators include: A decline in consumer confidence; the greatest consumer factor, the large increase in the number of people applying for unemployment assistance each week; a decline in the number of construction permits issued; a reduction in the undelivered manufacturing industry orders; a decline in the number of new consumer item orders; increased weakening in the supply of the national currency, the U.S. dollar; and a falling stock market.

##### *2. Huge United States Trade Deficit*

The slump and the decline in the United States domestic economy has led to a decline in its competitiveness in international trade. Fierce competition in new high technology products has come from Japan and the European Community, causing the volume of United States sales to decline in international trade; and in traditional products it is faced with competition from the newly industrialized states and other developing countries. In recent years trade deficits have wavered between US\$120 billion and US\$130 billion. Between US\$43 billion and US\$61 billion of that was lost from lack of full protection for intellectual property rights.

**(1) United States Trade Deficits With Japan**

The United States trade deficit with Japan reached US\$41 billion in 1990. Approximately two-thirds of this was caused by problems in the United States automobile industry itself and unfair Japanese trade practices encountered.

**(2) United States Trade Deficits With China**

The issue of United States trade deficits with China was created by the two sides' different ways of keeping statistics on Chinese commodities transshipped to the United States from Hong Kong.

According to Chinese customs statistics, in 1990 total Chinese-U.S. bilateral trade was US\$11.77 billion. Of that China exported US\$5.18 billion to the United States (not including Chinese commodities transshipped to the United States from Hong Kong) and imported US\$6.59 billion from the United States for a US\$1.41 billion Chinese deficit.

According to United States statistics, in 1990 United States-Chinese trade totalled US\$20 billion. Of that the United States exported US\$4.8 billion to China and imported US\$15.2 billion from China (including Chinese commodities transshipped to the United States from Hong Kong) for a United States deficit of US\$10.4 billion. In 1991 United States statistics, their deficit reached US\$12 billion.

**II. The Essence of the Sino-U.S. Intellectual Property Rights Protection Dispute**

Since the Uruguay Round of the negotiations of the General Agreement on Tariff and Trade (GATT), the relationship of intellectual property rights to trade has entered the negotiations, and the scope and the criteria for the protection of intellectual property rights have become a difference between developed and developing countries. Intellectual property rights have gone beyond their own scope and extended into the economic sphere and the international trade sphere affecting bilateral and multilateral cooperation and even national relations.

The issue of United States-Chinese trade deficits is only the fuse for the Sino-U.S. intellectual property rights protection dispute, but the essential cause is the difference in the Chinese and United States intellectual property rights protection systems.

**1. The Chinese Intellectual Property Rights Protection System**

China's intellectual property rights protection system has been formed and constantly perfected and improved in more than ten years of China's reform and opening up:

—China's Trademark Law was promulgated in 1982 and implemented 1 March 1983. The Trademark Law gave realistic protection to the rights and interests of

the owner of the trademark. In 1991 China's trademark applications reached 67,000 and total registrations were 318,000. To further improve China's Trademark Law, we are presently setting out to revise it.

—China's Patent Law was promulgated in March 1984 and implemented 1 April 1985. The formulation and implementation and administration of China's Patent Law are based on the most modern international models and comply with international standards but are not limited by other countries' standards.

—China's Patent Law and Trademark Law both employ a first application system and a substantial investigation system.

—China's Copyright Law was promulgated in September 1990 and implemented 1 June 1991. This is the first time since the founding of the country that the copyright enjoyed by citizens on scientific, cultural, artistic, and creative endeavors has been recognized by law.

—China's Computer Software Protection Regulations were promulgated in June 1991 and implemented in October 1991.

—China joined the the World Intellectual Property Rights Organization in 1980, joined the Paris Convention to Protect Industrial Product Rights in 1984, and joined the Madrid Trademark Registration Agreement in 1989, and is in consultation with the World Intellectual Property Rights Organization and the United Nations Education, Science and Cultural Organization (UNESCO) for China to join the Bern Convention to Protect Literary and Art Works and the World Copyright Convention.

The history of the establishment of China's intellectual property rights protection is rather short. When formulating China's first patent law, China still did not have the experience of carrying out a patent system to go by and practice has proven that some articles, such as those regarding the time limit on patents protecting inventions, methods and their products, chemical materials and medicines, and patent authorization to increase import authority, require revision.

**2. The United States Intellectual Property Rights Protection System**

The United States intellectual property rights system has been in existence for 200 years, but it still is being constantly perfected and improved:

—In 1790 U.S. President George Washington signed the first United States patent law. It was first an examination system, later changed to a registration system, and after forty some years, again changed to an examination system.

—In 1870 the U.S. Congress passed the first trademark law. After it had been implemented for seven years, it

was declared unconstitutional and invalidated. Not until 1905 was a new trademark law promulgated.

—The U.S. patent law originally did not protect the use of new patents. In 1842 this type of patent was augmented and the period of protection was seven years. The period of protection of patents on inventions began at fourteen years. In 1861 it was increased to seventeen years. Only after a 1930 law was promulgated were new varieties of plants given protection.

United States patents practice invention as the first principle and trademarks adopt use as the first principle; but the patents and trademarks of the vast majority of the world's countries adopt application as the first principle. The United States patent law is presently undergoing revision and it also will adopt application as the first principle and will extend the expiration of the patent to twenty years from the application date, but it still will not have a system to request an investigation. After the patent is implemented it is then investigated.

### *3. Differences and Disputes Between the Chinese and the United States Intellectual Property Rights Protection Systems*

There are the following differences between the Chinese and the United States intellectual property rights protection systems:

- (1) Chinese patents adopt the first application system; United States patents adopt the first invention system.
- (2) The period of protection for Chinese patents is 15 years; the period of protection for United States patents is 17 years.
- (3) China's Patent Law lacks articles for patents adding protection to methods and their products and chemical materials and medicines, but the United States patent law adds that protection.
- (4) China's Copyright Law and Computer Software Protection Regulations still need further improvement.

The differences between the Chinese and the United States intellectual property protection systems became the intrinsic cause of the Sino-U.S. intellectual property protection dispute which led to friction in Sino-U.S. trade relations. The U.S. trade representative, based on the special Article 301 of the U.S. Comprehensive Trade Act, in the three years from 1989 through 1991 listed China as one of the key countries to watch and criticized China's intellectual property protection system for not being up to international standards and not affording United States intellectual property rights full and effective protection in such aspects as patent laws and copyrights laws and not being able to guarantee that U.S. commodities could be fairly traded on the Chinese market; and claimed that because Chinese protection for U.S. chemical materials and medicines, computer software, audiovisual products, copyrights, and commercial secrets lacked strength, the United States sustained huge

trading losses. For example, Roger Brooks, vice-president of the American Pharmaceutical Manufacturers Association, believed that by China not granting patent protection to foreign medicines and copying U.S. medicines caused the United States to lose US\$300 million a year in pharmaceutical trade. In addition, the United States lost US\$430 million a year because U.S. copyrights, trademarks, and patents were not protected in China. So, the United States demanded that China satisfy United States requirements that the United States had proposed to China to strengthen protections of intellectual property rights before 16 January 1992 or it would adopt increased tariff penalties, adding as much as 100 percent tariff to such commodities as textiles, beer, and footwear that China traded in large quantities. To reduce the damage to interests of the U.S. consumers to the lowest level, China would pay out US\$1.5 billion more in tariffs.

To counter United States censures of China, China also prepared to adopt corresponding 100 percent increases in tariff sanctions on such U.S. imports as Boeing aircraft, corn, and cotton, thereby causing the United States to lose US\$1.2 billion a year. But after the United States and China had gone through six rounds of negotiations, finally at the last moment of the time limit that the U.S. trade representative had set, they made mutual compromises and concessions and signed the memorandum of understanding on the protection of intellectual property rights, thereby avoiding a trade war between the two sides.

### **III. Insight From the Sino-U.S. Intellectual Property Rights Protection Dispute**

Presently, the rivalry between the economic hegemonists of the world has shifted from capital to give an ever more important role to science and technology and systems to protect intellectual property rights for promoting scientific and technical progress, for developing the economies, and for improving the international competitiveness of the all countries, arousing a great deal of attention in the world governments.

The Sino-U.S. intellectual property rights protection dispute has given us the following insight:

#### *1. To Adapt to Reform and Opening Up, We Must Put Forth a Great Deal of Effort To Publicize and Increase Citizen Awareness of the Protection of Intellectual Property Rights*

As a developing country, China's science and technology is rather backward. In addition, the intellectual property rights protection system has been established only for a very short time. Throughout the ranks of China's trades and professions the concepts and awareness of a legal system for intellectual property rights also are extremely shallow. Lacking in the proper level of understanding and standards for activities for the protection of intellectual property rights, they cannot adapt to the demands for further reform and opening up. So, we must put forth much effort to publicize the great significance

of protecting intellectual property rights and actively initiate popular education on the protection of intellectual property rights and conduct widespread study classes on the protection of intellectual property rights in such trades and professions as scientific research, development, production, industry and commerce, foreign trade, and literary and art publication; and conscientiously study policies, laws, and important regulations on the protection of intellectual property rights so that citizen awareness of the protection of intellectual property rights can be generally improved.

*2. To Promote the Rapid Conversion of Science and Technology Into a Productive Force We Must Increase Protection for Intellectual Property Rights*

Progress in science and technology and protection of intellectual property rights complement each other. The system for protection of intellectual property rights was produced on the eve of the world's first industrial revolution. Since then each of the world's industrial revolutions has advanced the development of the system to protect intellectual property rights and the system to protect intellectual property rights has safeguarded and given impetus to each industrial revolution. In China's socialist commodity economy, the system to protect intellectual property rights is a legal guarantee to ownership of inventions and creations and a legal basis for converting scientific and technological achievements to productive forces, becoming a powerful means of promoting scientific and technological progress and economic development. For example, China has implemented the Patent Law since 1 April 1985. That year there were only [a little] over 14,000 patent applications. In 1991 they broke 50,000 and total applications exceeded 210,000. The patents that have been implemented have tremendously enriched society. According to statistics of 26 provinces and municipalities on 3,500 patents, in 1990 the newly increased output value was 6.27 billion yuan and newly increased profit taxes were 950 million yuan.

*3. To Intensify Economic Reform and Broaden the Opening to the Outside We Must Increase Protection for Intellectual Property Rights*

China as a developing country, to resolve the problems of inadequate developmental capital and backward technology, must introduce foreign capital and advanced technology, promote the entry of China's advanced technology and commodities into international markets, actively participate in international market exchanges and international divisions of labor, and constantly expand the volume of foreign trade for China's traditional products and new high technology products. The

system to protect intellectual property rights is protection for the newest worldwide scientific and technological productive forces and helps China to introduce advanced foreign technology and products and attract large amounts of foreign capital. At the same time, it also can protect Chinese commodities as they break into international markets and broaden China's volume of foreign trade. For example, the "Ballet" brand pearl series of cosmetics produced by the Nanjing, Jiangsu cosmetic factory has increased its long-term good market in Japan and Southeast Asia. On the Japanese market, four bottles of "Ballet" can be traded for a color television and it once made up as much as 90 percent of the Hong Kong market. But a foreign merchant used US\$300 to grab up its registration first and obtained the trademark for that product and copied it and sold it, seriously affecting exports of this cosmetic. The people concerned had to put out US\$200,000 to return the exclusive use of the "Ballet" trademark to China. In addition, if China's patent law does not grant patent protection to chemical materials and medicines, it could affect the introduction of advanced foreign chemical materials and medicines and their production technology, causing China's fine chemical industry products to remain at a rather backward level of production on the international market.

*4. To Further Perfect and Improve China's Intellectual Property Protection System We Must Improve Administration and Policy Formulation for the Protection of Intellectual Property Rights*

Following the signing of the Sino-U.S. memorandum of understanding on the protection of intellectual property rights, China has set out to revise relevant articles of such laws as the Patent Law and the Copyright Law, which is bound to have a definite affect on China's protection of intellectual property rights in such areas as scientific research and development, production, foreign trade, and literary and arts publishing. We must adopt effective measures and formulate appropriate policies to better administer the protection of intellectual property rights. The State Council has already established a leading group for the protection of intellectual property rights, and central ministries and commissions and provinces and municipalities also must appropriately establish leading groups to protect intellectual property rights and improve administration of the protection of intellectual property rights in the trades and professions to adapt to the reform of China's system to protect intellectual property rights. For example, after China's patent law is revised, it will grant patent protection to chemical materials and medicines. So, it is bound to improve China's ability to develop chemical materials and medicines itself and curb the copying and sale of foreign imported chemical materials and medicines. In addition, after China revises relevant articles of the Copyright Law and once China joins the World Copyright Organization,

it is bound to prohibit the unlawful copying and publication of foreign books and publications and prohibit the unlawful reproduction of foreign audiovisual materials. In the short term, this will instead greatly increase the financial and human resources that China puts into the protection of intellectual property rights; but looked at in terms of long term development, it is nevertheless an effort with long-term economic benefits.

### First Quarter World Export Figures Reported

#### North American, Oceanian Exports

HK2705103692 Beijing CEI Database in English  
27 May 92

[Text] Beijing (CEI)—Following is a list showing the value of China's export to North American and Oceanian countries and regions in the first quarter of 1992, released by the General Administration of Customs:

Country and Region	Export	
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. dollars)	
North America	145,799	
Canada	11,578	10,360
The United States	134,221	102,812
Greenland	-	
Bermuda	0	
Other North American countries and regions	-	
Oceania	16,983	
Australia	14,307	14,482
The Cook Islands	3	
Fiji	436	
Nauru	-	
New Caledonia	12	
New Zealand	1,698	1,187
Norfolk Island	4	
Papua New Guinea	239	
Solomon Islands	24	
Tonga	52	
Tuvalu	-	
Other Oceanian countries and regions	208	

#### Latin American Exports

HK2705102692 Beijing CEI Database in English  
27 May 92

[Text] Beijing (CEI)—Following is a list showing the value of China's export to Latin American countries and regions in the first quarter of 1992, released by the General Administration of Customs:

Country and Region	Export	
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. dollars)	
Latin America	17,260	
Antigua	0	
Argentina	1,785	542
Bahamas	2	
Barbados	40	
Belize	37	
Bolivia	43	
Brazil	1,277	511
Cayman Islands	-	
Chile	1,491	1,352
Colombia	186	
Dominica	68	
Costa Rica	78	
Cuba	3,819	3,527
Dominican Republic	271	
Ecuador	274	
French Guiana	2	
Grenada	-	
Guadeloupe	3	
Guatemala	247	
Guiana	56	
Haiti	-	
Honduras	85	
Jamaica	187	
Martinique	3	
Mexico	2,134	1,219
Montserrat	-	
Nicaragua	2	
Panama	1,894	
Paraguay	146	
Peru	1,552	379
Puerto Rico	81	
St. Lucia	0	
St. Vincent	-	
El Salvador	93	
Surinam	37	
Trinidad and Tobago	37	
Turks and Caicos Islands	-	
Uruguay	307	
Venezuela	942	
British Virgin Islands	-	
St. Kitts-Nevis	-	
Other Latin American countries and regions	84	



**Non-EC, Non-EFTA European Exports***HK2705101392 Beijing CEI Database in English  
27 May 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's export to European countries and regions other than EEC and EFTA in the first quarter of 1992, released by the General Administration of Customs:

Country and Region	Export	Export
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. Dollars)	
Europe	199,385	
Albania	7	155
Andorra	29	
Bulgaria	82	444
Czech and Slovak	368	1,425
Gibraltar	81	
Hungary	256	398
Malta	396	
Monaco	22	
Poland	1,218	1,150
Romania	661	1,113
San Marino	8	
Yugoslavia	321	1,174
Estonia	236	
Latvia	76	
Lithuania	-	
Georgia	-	
Armenia	13	
Azerbaijan	17	
Byelarus	89	
Kazakhstan	6,551	
Kyrgyzstan	74	
Moldova	5	
Russia	35,831	
Tajikistan	34	
Turkmenistan	14	
Ukraine	96	
Uzbekistan	441	
Other European countries and regions	-	

**EFTA Countries Exports***HK2705101292 Beijing CEI Database in English  
27 May 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's export to European Free Trade Association (EFTA) countries in the first quarter of 1992,

released by the General Administration of Customs:

Country and Region	Export	Export
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. dollars)	
Europe	199,385	
EFTA	10,673	
Austria	1,114	1,279
Finland	1,328	1,513
Iceland	19	
Liechtenstein	1	
Norway	1,270	1,111
Sweden	3,536	2,834
Switzerland	3,404	4,136

**African Exports***HK2705110392 Beijing CEI Database in English  
27 May 92*

[Text] Beijing (CEI)—Following is a list showing the value of China's export to African countries and regions in the first quarter of 1992, released by the General Administration of Customs:

Country and Region	Export	Export
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. Dollars)	
Africa	15,945	
Algeria	71	405
Angola	233	
Benin	405	
Botswana	-	
Burundi	83	
Cameroon	501	
Canary Islands	210	
Cape Verde	-	
Central Africa	-	
Chad	1	
Comoros	1	
Congo	98	
Djibouti	189	
Egypt	2,424	1,165
Equatorial Guinea	-	
Ethiopia	28	
Gabon	28	
Cambia	550	
Ghana	487	
Guinea	149	
Guinea-Bissau	218	

Country and Region	Export	Export
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. Dollars)	
Ivory Coast	177	
Kenya	444	
Liberia	25	
Libya	1,707	409
Madagascar	29	
Malawi	19	
Mali	46	
Mauritania	57	
Mauritius	572	
Morocco	915	
Mozambique	29	
Namibia	4	
Niger	16	
Nigeria	729	
Reunion	46	
Rwanda	67	
Sao Tome and Principe	1	
Senegal	207	
Seychelles	6	
Sierra Leone	94	
Somalia	14	
Western Sahara	3	
Sudan	2,165	
Tanzania	2,212	
Togo	600	
Tunisia	416	
Uganda	108	
Burkina Faso	17	
Zaire	84	30
Zambia	72	
Zimbabwe	47	
Lesotho	5	
Swaziland	1	
Other African countries and regions	260	

Country and Region	Import	Import
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. dollars)	
Africa	7,138	0
Algeria	0	
Angola	1	
Benin	5	
Botswana	71	
Burundi	1	
Cameroon	488	
Canary Islands	0	
Cape Verde	-	
Central Africa	-	
Chad	-	
Comoros	-	
Congo	-	
Djibouti	-	
Egypt	-	3
Equatorial Guinea	-	
Ethiopia	-	
Gabon	402	
Gambia	1	
Ghana	199	
Guinea	10	
Guinea-Bissau	-	
Ivory Coast	87	
Kenya	18	
Liberia	-	
Libya	922	839
Madagascar	56	
Malawi	-	
Mali	403	
Mauritania	-	
Mauritius	-	
Morocco	942	
Mozambique	465	
Namibia	-	
Niger	-	
Nigeria	375	
Reunion	-	
Rwanda	-	
Sao Tome and Principe	-	
Senegal	1	
Seychelles	-	
Sierra Leone	-	
Somalia	23	

### First Quarter Import Figures Reported

#### African Imports

HK2605095492 Beijing CEI Database in English  
26 May 92

[Text] Beijing (CEI)—Following is a list showing the value of China's import from part of the African countries and regions in the first quarter of 1992, released by the General Administration of Customs:

Country and Region	Import	Import
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. dollars)	
Western Sahara	-	
Sudan	730	
Tanzania	12	
Togo	166	
Tunisia	184	
Uganda	-	
Burkina Faso	-	
Zaire	100	62
Zambia	165	
Zimbabwe	1,302	
Lesotho	0	
Swaziland	8	
Other African countries and regions	-	

### EC Imports

HK2605100792 Beijing CEI Database in English  
26 May 92

[Text] Beijing (CEI)—Following is a list showing the value of China's import from EC countries in the first quarter of 1992 released by the General Administration of Customs:

Country and Region	Import	Import
	1-3/1992	1-3/1991
	(Unit: 10,000 U.S. dollars)	
Europe	293,051	
EC	187,752	176,292
Belgium	9,206	4,881
Denmark	2,879	1,428
Britain	17,919	24,942
Germany	68,064	70,225
France	36,490	30,470
Ireland	536	191
Italy	33,444	25,877
Luxembourg	246	28
The Netherlands	6,964	7,155
Greece	23	348
Portugal	1,359	536
Spain	10,624	10,212

### Problems Associated With Foreign Investment

92CE0572A Beijing GUOJI SHANGBAO in Chinese  
16 May 92 p 3

[Article by Liu Yanjie (0491 3601 2638): "Five Major Puzzles Associated With China's Use of Foreign Investment"]

[Text] The 1990's will be a crucial period in China's economic development, when our success in using foreign investment will be a key factor in the realization of our second strategic modernization objective. In order to ensure that the inflow of foreign investment achieves our desired goals, we must first solve the following five major puzzles associated with our use of it:

1. Might the rapid increase in output value of the three kinds of foreign-invested enterprises (FIE's) shake the dominance of public ownership? The industrial output value of FIE's has grown far faster than that of state-owned enterprises in recent years, reaching 70 billion yuan in 1990, or about 3.6 percent of China's GVIO [Gross Value of Industrial Output], so that some are concerned that such a growth momentum might threaten the dominance of public ownership. As such concerns are naturally influencing our policy-makers, it will be hard for us to speed up the pace of our use of foreign investment unless we solve this puzzle. I think that the development of FIE's can be compatible with that of state-owned enterprises, and that it will certainly not clash with public ownership for the following reasons: 1) China's economic legislation concerning foreign investment is being steadily improved, so that foreign investors can operate only within legally stipulated limits, while the state can use administrative means to strengthen its macroeconomic regulation and control over the use of foreign investment, such as formulating industrial policy, regulating and guiding foreign investment orientation, and setting proper proportions and investment deadlines for the attraction of foreign investment to all sectors of our national economy, which will keep foreign investment in line with our development of a planned commodity economy. Our experience in developing SEZ's, such as Shenzhen, has fully proved this point. 2) The leap in FIE output value has occurred in a climate of our large- and medium-sized state-owned enterprises not having been revitalized. But since 1991, the state has taken various steps to create a better external climate for the development of large- and medium-sized enterprises, and the gradual conversion of internal operating forces will improve the performance of state-owned enterprises. 3) The state is now conducting experimental shareholding reforms, which are forcing FIE's and state-owned enterprises to explore new forms of mutual shareholding and enterprise group organization, so that their key production elements are being reorganized to promote mutual progress and joint development.

2. Will the sharp increase in FIE exports be profitable to the state? FIE exports have increased remarkably in recent years, from only \$1.209 billion, or 3.06 percent of China's exports, in 1987, to over \$10 billion, or 16.7 percent of our exports, by 1991, for an average increase of 77.5 percent a year. Some have noted that, as FIE export earnings do not accrue to the state or affect state foreign exchange profits and, as FIE exports are likely to compete with and have a great negative impact on the products where we have traditional advantages, a too rapid increase in FIE exports will not necessarily be profitable to the state. But in fact, expanded FIE exports can increase our domestic foreign exchange supply and improve our foreign exchange supply and demand relations. China has a shortage of foreign exchange. While

our foreign exchange markets have been soft in recent years mainly because import demand has been curbed, and certainly not because our foreign exchange supply and demand relations have improved, FIE export earnings can certainly increase the foreign exchange supply on our foreign exchange markets. In 1990, FIE transactions on foreign exchange markets reached \$2.2 billion. During the Eighth Five-Year Plan, China's imports may reach \$350 billion, so that there will be a very strong demand for foreign exchange, which will make the impact of FIE foreign exchange earnings on the improvement of our foreign exchange supply and demand relations even more conspicuous. Of course, we must correctly handle the relations between FIE exports and ordinary export trade, which will mean ensuring examination and approval, by minimizing investments or taking over of export quotas in fields where we already have advantages, in order to prevent unnecessary losses due to FIE products creating all-out shocks to original markets.

3. A new wave of foreign investment is occurring along with an increased number of FIE's sustaining losses. On the heels of the two waves in 1984 and 1988, a third wave of foreign investment is now underway. While foreign businessmen have invested in setting up over 18,000 factories in China in the last two years, or almost as many as in the previous decade, the percentage of operating FIE's that are sustaining losses is increasing, being actually as high as 50 percent in some places. As this has become a matter of concern to all foreign and domestic parties, particularly foreign investors, we must take it seriously. These FIE losses are caused by one, poor original feasibility studies and unrealistic beginnings along with substandard management, which have landed enterprises in fixes, and two, profit diversion and legal tax evasion by some foreign businessmen in processes, such as signing contracts, putting up capital, managing production, and buying and selling commodities. Such conditions account for a considerable number of losing enterprises. Due to space limitations, I will not go into the first cause here, but will only explore the losses caused by the second one. In my view, while maintaining the continuity and stability of our policies on attracting foreign investment, the state should pay close attention to drawing up laws and regulations closely related to FIE's, such as a corporation law, a bankruptcy law, and an arbitration law, in order to set forth clear standards for FIE's in areas such as property rights, ownership, enterprise rights, distribution form, investment procedures, foreign exchange control, and import-export management; add a "price-conversion" clause to the income tax law for Sino-foreign joint-venture enterprises, in order to clearly set forth price declaration rules for the dealings between taxpayers and concerned enterprises; and change FIE income tax reduction and exemption deadlines from the year in which profits were earned to an X number of years after going into operation, in order to keep foreign businessmen from fabricating book losses and strengthen

contract management. New contracts should have "standard texts of contracts for introduced foreign investment." These steps should have a clear impact in solving the problem of increasing FIE losses.

4. Why are FIE's so small and low-tech? While China had approved the establishment of 43,000 FIE's by 1991, for an agreed foreign investment of \$51.4 billion, FIE investments are too small, averaging less than \$1.2 million, with only a few dozen large ones consisting of as much as \$100 million. Most of those on our southeast coast are small export-manufacturing enterprises with investments of approximately \$100,000, which are largely impacted by international markets, lacking in development stability, and low-tech, and do not import technology dynamically. This is caused by the following: 1) Some localities and departments strive one-sidedly for increased numbers of FIE's, regarding the number of FIE's as one of the major criteria for assessing their official achievements, while ignoring problems in areas, such as investment orientation and scale, level of technology, and dynamic importing of technology; 2) Our policies to stimulate foreign investment are too general, providing too few preferences to large investments and high-tech projects. In order to change the current situation of too many low-tech, duplicate projects, we must take the following steps: 1) We must transform our guiding ideology in attracting foreign investment, by changing our foreign investment utilization emphasis from quantity to quality (including investment scale, technology level, and economic efficiency), and by assessing the achievements of a locality or department in using foreign investment mainly according to the criteria of conformity to national industrial policy, level of technology, and economic efficiency. 2) We must shape and slant our policies to favor products with larger investments, more advanced technology, and more dynamic technology imports, and provide only moderate incentives to ordinary export-manufacturing and production enterprises.

5. Might allowing the domestic sale of FIE products be a shock to our national industries? The major current trend in the foreign investment of international capital is to expand market share. The primary reason why certain famous international transnational corporations have chosen to invest in China is our huge market potential. In this sense, our future capability to attract more investment in China by well-capitalized and high-tech transnational corporations will depend to a great extent on how open our domestic markets are to FIE products. While conceding part of our domestic market will naturally have a certain impact on our national industries, we must also realize the positive effects of doing so. On one hand, opening up our domestic markets will enable us to get in return advanced technology and management expertise, which will directly speed up the technological upgrading of our existing enterprises and improve the overall quality of our national economy. On the other, allowing FIE products into our domestic markets will provide incentives for our domestic enterprises to speed

up their pace of technological progress and product improvement and change. Chinese industries, such as automobiles, elevators, computers, communications equipment, food and drink, household electronics, numerically controlled machine tools, instruments and meters, sealants, glass, and pharmaceuticals, are now being pressured by competition to upgrade their manufacturing technologies and shrink the gap with advanced foreign industries. Of course, we must be very careful in choosing fields in which to open up our markets, by focusing mainly on key national import substitutes and products in short domestic supply in the short and medium term, and products with high domestic marginal production cost in the long-term. But we must continue to strictly control expensive consumer goods markets, in order to prevent excess consumption that would lower domestic savings and offset the potential contribution to our national economy of foreign investment.

#### Impact of Sino-U.S. IPR Memorandum Noted

92CE0551a Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 4, 27 Apr 92 pp 33-35

[Article by Gong Xiu-guo (7895 4423 0948) of the Department of Foreign Trade of the Sichuan University: "Brief Analysis of the Sino-U.S. Memorandum on the Understanding of Intellectual Property Rights Protection"]

[Text] In 1991, "quality efficiency" guided enterprise management and vigorously accelerated the development of foreign trade. As a result, China's running account showed over \$8 billion of trade surplus for the first time. Unfortunately, the year of 1991 ended with increasingly acute trade friction between China and the United States, resulting in the Sino-U.S. dispute over the issue of protecting intellectual property rights.

After the Gulf War, with the former Soviet Union disintegrating, the United States became the one and only superpower in the world. However, under the double pressure of huge financial and trade deficits, the U.S. economy declined for 2 consecutive years, and the unemployment rate reached as high as 7 percent. In order to cure as soon as possible economic depression and serious unemployment, the United States often uses political, economic, and legal means to threaten other nations to open up market for American commodities, claiming that "every increase of \$1 billion export will create 20,000 employment opportunities at home." It is under this circumstance that China was listed by the U.S. as major targets of observation for violating the "301 Special Clause" of the "1988 Comprehensive Trade Law." The United States also threatened that if the two sides failed to reach an agreement on the issue of protecting U.S. intellectual property right before the midnight of 16 January 1992, the United States would unilaterally impose 100 percent punitive tariff on Chinese imports and abolish China's most-favored-nation treatment. This undoubtedly would deal a great blow at

China which is the third largest trade partner of the United States. Because of this, the Chinese declared that if the U. S. imposed sanctions, China would do the same in return to major U.S. imports to China such as airplanes, grain, and steel products.

Fortunately, after six rounds of tit-for-tat bargaining which lasted for six months between China and the U.S., and on the basis of mutual understanding and concession, the two sides finally reached an agreement within the deadline and signed a memorandum on understanding, thereby heading off a great trade war that would have cost several billion dollars. On that day, the U.S. stopped the investigation of China, which was conducted according to the "301 Special Clause," and eliminated China from the list of "major targets." The Chinese planned to adopt five measures to reform China's import control system and to bring China's foreign trade system one step closer to the international trade standards.

1. Gradually lower the general tariff level to that of developing countries specified by GATT, and fix the tax rate of every import commodity according to the industrial policy and economic development level. The import regulatory tax will be eliminated within 1992 and the exchange rate of renminbi will be gradually rationalized to implement the unitary floating exchange rate system.
2. Formulate as soon as possible "Foreign Trade Law," "Anti-dumping Law," and other legislations, manage imports according to law, and adopt the accepted international practice to extend necessary protection to fledgeling industries at home.
3. Reduce the scope of commodities subject to the control of the import permit. Sixteen out of 53 commodities which are currently under the control of the import permit will be abolished in the near future, and about two thirds will be abolished in the next two to three years.
4. Specify other technical measures for import control according to the stipulations of GATT.
5. Increase the openness of import control. The internal documents of current import control need to be made public as soon as possible if they are to be implemented continuously. From now on all rules and regulations concerning import control will be made public by the Ministry of Foreign Economic Relations and Trade in a unified manner.

It is not hard to see that the purpose of these measures is to gradually open up China's market according to the demand of GATT. The first two measures are aimed to generally reduce the tariff of allowed imports while the last three measures are to substantially reduce the number of non-tariff trade barriers currently existing in the China market. Is the signing of the memorandum good news or bad news? As far as its impact on China's foreign trade undertaking is concerned, I think:

1. The signing of the memorandum fully explains that China is willing to develop the cooperation with the U.S. in various fields including economy, trade, science, and technology. This will give a great impetus to accelerating and improving Sino-U.S. relation. Like the U.S. Trade delegate (?Hills) said, the reaching of the agreement prevented tariff retaliation, established a link of better communications between the two sides, and created a pleasant environment both for the United States and China.

2. The signing of the memorandum pushes China one giant step forward toward the membership of GATT. In 1991, after readjusting the exchange rate of renminbi, China gradually eliminated the export subsidy of foreign trade enterprises and allowed them to "take the initiative in management and take sole responsibility for their own profits and losses." In the meantime, China submitted a formal membership application to GATT. Today China has further opened up domestic market in accordance with the requirements of GATT, made a giant step forward toward the free trade advocated by GATT, and paved the way for China to get its GATT membership at an earlier date.

3. Judged from the long-term point of view, China's opening up domestic market and bringing in international competition can more vigorously speed up the structural reform of domestic industrial enterprises, enable industrial enterprises to mature, develop, and grow continuously amid sharp market competition, and eventually help realizing the magnificent goal of breaking through China and marching to the world.

4. The broad masses of Chinese consumers are the direct beneficiaries of this trade agreement. Along with the reduction or elimination of import tariff and regulatory taxes and the substantial reduction of non-tariff barriers such as commodities subject to the control of import permit, Chinese consumers will be able to enjoy more high-quality and low-priced commodities and a much greater variety and selection.

5. The signing of the memorandum also fully proves that trade disputes between two nations can be resolved through the method of fair negotiations and mutual understanding and concession. Adopting other methods which are irrational not only cannot help solving the problem but also can complicate the issue.

After the signing of the memorandum, China will further reform its import control system, which undoubtedly will create a serious challenge to China's foreign trade and domestic enterprises. The first to be affected is of course domestic enterprises. Not only do they lack the practice and experience of management needed for market competition but their technological level is obviously too low compared to that of enterprises in developed countries. Because of this, under the double pressure of abolishing subsidy and opening up the market, domestic enterprises may suffer a certain amount of economic losses within a short period of time. To reduce

such losses, the state should import some complete sets of equipment and advanced technology before opening up the domestic market to speed up the technological transformation of enterprises, especially those large and medium-sized, so as to increase their ability to compete and survive.

In addition, while opening up the market, China should also readjust, in light of international market changes, the industrial structure, vigorously participate in international competition and the great circle of international market, and pave the way for the development of industry and the national economy of China. Within a short period of time, China's running account probably will witness another negative balance. Along with the substantial reduction of tariff and non-tariff protective measures, China's foreign imports will be further expanded. If foreign exports fail to increase by a fairly large margin within a short period of time, the occurrence of trade deficits will be inevitable in China.

In order to improve trade balance and expand foreign export, China should also practice market pluralization of foreign trade. In other words, while maintaining exports to China's major trade partners such as Hong Kong, Japan, the United States, and west Europe, China should vigorously develop and expand market in other nations or areas, strengthen economic and trade ties with neighboring countries especially the six ASEAN nations, and continue to push China's foreign trade to yet another altitude.

#### Share System Seen as Great Hope for Foreign Trade Firms

92CE0549A Beijing GUOJI SHANGBAO in Chinese

[Article in two installments by Fu Ziying (0265 5261 2019): "Basic Conditions for Reform of the Share System in Foreign Trade Enterprises"]

[13 Jun 92 p 3]

[Text] Share system enterprises are an outgrowth of a highly developed economy; they are a relatively high grade form of organization of enterprise assets. Therefore, they require fairly good external conditions and basic conditions. Reform of the share system in foreign trade enterprises requires the gradual shaping of attendant basic conditions in the following several regards.

#### 1. Operating Conditions That Permit Fair Competition

China's foreign trade enterprises, particularly large- and medium-sized corporations specializing in foreign trade, are founded strictly on a division of labor in commodity dealings within a highly planned economy. Enterprises inability to switch from one line of business to another has the effect of creating unfair competition among them, particularly in the case of commodities designated for state handling in which only one or two corporations are allowed to deal. To a very large extent, enterprise profits are determined by state policy. At the same time,

administrative methods continue to be used for the most part in setting import-export quotas and issuing licenses. The lack of needed transparency and the existence of much subjectivity and discretionary behavior also creates unfair competition among enterprises. The strongest point of share system enterprises is that they require neither government administrative support nor are they subject to government administrative interference. What they need is conditions for fair business competition. Foreign trade enterprise transformation to a share system urgently requires conditions for fair business competition. As foreign trade system reform becomes more pervasive, limitations on the operating sphere of foreign trade enterprises have relaxed to a very large extent. In order to go further in creating an environment of fair competition for business enterprises, and to bring the administration and management of China's foreign trade in conformity with international standards, government agencies concerned are in process of studying the removal of all restrictions on the independent operation of enterprises authorized to conduct foreign trade, except for a small number of products having a major bearing on the national economy and the people's livelihood, and the adoption of a public bids and auctioning system for the issuance of quotas and licenses. Without doubt, this would provide fair business competition conditions for reform of the foreign trade enterprise share system.

## 2. Fostering of Mature Market Conditions

Markets are places that provide the external conditions and the equal competition for enterprise development. Formation of a share system depends on the preliminary growth of markets, and further perfection of markets is also indispensable to the good operation of share system enterprises. Foreign trade enterprises are faced with both international and domestic markets; hence, both markets for the purchase of imported commodities and markets for the sale of export commodities are basically commodity markets formed in accordance with the laws of value. After more than a decade of economic system reform, despite many remnants of a product economy in China's domestic markets, the domestic markets that foreign trade enterprises face are gradually developing into planned commodity economy markets that help operation of a share system.

*1. Gradual Removal of Restrictions on Means of Production Markets.* In the gradual removal of restrictions on means of production markets, first has been a great reduction in the percentage of centrally allocated means of production, the state allowing enterprises themselves to enter the market directly to purchase the means of production. Second has been a gradual removal of price restrictions on the means of production. Except for a small number of means of production having a major bearing on the national economy and the people's livelihood for which the state sets prices, or sets guidance prices, prices of all other means of production are largely set by enterprises themselves.

*2. Gradually More Open Capital Markets.* First, government has permitted many financial institutions to handle financial transactions involving foreign exchange. Second is the establishment of foreign exchange regulation markets permitting enterprises' foreign exchange to be freely regulated across regional and industry lines in markets. Third, many large and medium size cities have opened bond markets, and some cities have opened markets for the issuance and trading of stocks. A fairly mature capital market is in process of formation.

*3. A Gradually Opening Labor Market.* First, with the destruction of the "three irons" [the iron rice bowl of guaranteed employment, the iron armchair of employment perquisites, and ironclad pay parity], substantial autonomy has occurred in enterprises' use of labor, the number of personnel they employ, their staffing, and their institutional set-up. Second, the state no longer sets uniform staff member and worker income standards. Enterprises may themselves set staff member and worker wages within an overall wage bill. Third, a staff member and worker social insurance mechanism is gradually being put in place, thereby creating some of the conditions necessary for enterprises themselves making decisions about the dismissal of staff members and workers.

With the preliminary development and further improvement of markets, production elements can move freely and recombine for the formation of an open, competitive market environment in the gradual creation of conditions for a transformation of the share system in foreign trade enterprises, and foreign trade enterprise becoming more diversified, forming blocs, and more pluralized.

## 3. Gradual Shaping of Legal Conditions in Keeping With the Operation of a Share System.

Share system enterprises operate mostly in a market environment. Their greatest strength lies in their dependence mostly on the market rather than on the government for their survival, demise, and development. Government does not become involved in enterprises' day-to-day management through the exercise of administrative control. Instead laws and regulations regulate enterprises business conduct in markets. At the present time, no relatively standard, nationally uniform legal provisions such as corporate law or laws regulating the issuance and trading in stock shares exists for the transformation of China's enterprises to a share system. However, places like Shanghai, Shenzhen, and Fujian have set up some local regulations on the operation of the share system, and the national government is in process of drawing up a uniform code relating to a share economy. Legal conditions that apply to the transformation of foreign trade enterprises to a share system are gradually taking shape.

## 4. Foreign Trade Enterprises Capabilities To Develop Through Competition Gradually Growing

As reform of the foreign trade system intensifies, foreign trade enterprises have gradually developed away from

engaging solely in international trade toward involvement in multiple businesses. Foreign trade enterprises are gradually developing from their former dependence on government administrative support toward improvement of their own managerial capabilities and toward management effectiveness. During the past several years, in particular, as a result of the reform of the system for being responsible for their own profits and losses, foreign trade enterprises have much stronger ability to meet market emergencies and to develop themselves. This also creates better conditions for foreign trade enterprises to conduct a transformation to the share system.

Transformation to the foreign trade enterprise share system requires fine basic conditions. Even though China has carried out economic system reform for more than a decade, conditions completely consistent with the operation of a share economy are not entirely in being. Examples include incompletely developed markets, lack of a complete legal system, etc. Therefore, conditions for a large scale, complete transformation to a foreign trade enterprise share system are not in being. However, I firmly believe that with the steady intensification of reform and opening to the outside world, and with the accumulation of experience from the country's pilot projects on the operation of a share economy, the basic conditions for the operation of a share system in China will be established.

[20 Jun 92 p 3]

[Text] China's foreign trade enterprise system was formed in response to the former product economy. Since the advent of reform and opening to the outside world, this foreign trade system has undergone a number of major reforms; nevertheless, fettered by the product economy pattern and thinking formed over a long period of time, the most fundamental problems troubling foreign trade enterprise reform have been as follows: ambiguous equity relationships, low returns from the use of assets, and no clear-cut distinction between operating rights and ownership rights, which have never been resolved. Despite the several major foreign trade system reforms made in the readjustment of policies whereby foreign trade enterprises become responsible for their own profits and losses as the emphasis in reform, because the most fundamental problems in foreign trade enterprise reform were never resolved, foreign trade enterprises lack a flexible operating mechanism, and enterprises are not responsible for their own profits and losses. Foreign trade enterprises can scarcely continue to move in the direction of being responsible for their own profits and losses under the prevailing enterprise system. This has become a central issue in the country's further intensification of reform of the foreign trade system. This article seeks through a discussion of foreign trade enterprise share system reform to explore means of reforming foreign trade enterprises in order to transform the foreign trade enterprise operating mechanism, and increase the vitality of foreign trade enterprises.

As China's opening to the outside world and reform of the economic system intensifies, the undiversified devotion to trade of foreign trade enterprises and an enterprise system that relies on government administrative protection seriously restrict foreign trade enterprises own accumulations and development, and confronts some foreign trade enterprises with a survival crisis. Given this new situation, the way to survival and development for foreign trade enterprises lies in destruction of the traditional foreign trade enterprise system and method of organization to take a road of pluralism, multiple kinds of business, the formation of blocs, and trans-national operation. The share system, one might say is a relatively good choice for transformation of the foreign trade enterprise form of organizations. It holds significance and is indispensable in the following ways:

1. It will help intensify foreign trade system reform. Foreign trade enterprise institution of share system reorganization can employ mutual interests as a bond to give genuine impetus to the linking of trade and industry, the linking of trade and commerce, the linking of trade and agriculture, and the linking of trade and technology that promotes the development of foreign trade enterprises in the direction of involvement in multiple businesses.

2. It will help straighten out equity relationships, clarifying assets operation responsibilities. Reorganization of foreign trade enterprises in a share system can solve the problems of foreign trade state-owned assets being nominally the property of the state when actually no one is responsible for them, enterprises having no motivation, and individuals having no responsibilities. A special characteristic of share system enterprises is "joint equity, joint assumption of risks, and joint enjoyment of benefits." Clarification of equity rights will help stimulate enterprises to operate careful, constantly improving their economic returns, while simultaneously preserving the value and increasing the value of state-owned assets that are used.

3. It will help transform enterprises' operating mechanism and promote improvement of foreign trade enterprises' internal management system. Once a share system has been instituted, direct government control and interference in enterprises will be replaced by the supervision and control of a board of directors for a separation of government administration and enterprise management. A proper separation of ownership rights and operating rights will enable enterprises to become genuinely responsible for their own profits and losses, and to make their own business decisions as juridical persons, enterprises thereby becoming suffused with vitality.

4. It will help the self-development and strengthening of foreign trade enterprises. By issuing share certificates or bonds, share system enterprises will be able to raise large amounts of money very quickly from society to solve the problem that foreign trade enterprises face of not having



sufficient funds for modernization and for their development into multiple lines of business. In addition, through the issuance of B-shares, enterprises will also be able to raise foreign capital without incurring a debt burden in consequence inasmuch as there is no need to return the principle on the equity capital raised.

5. It will help foreign trade enterprises operate and manage in accordance with international practice. Share system enterprises will operate in accordance with international practices from their accounting reporting system and internal enterprise management to the enterprise organizational structure; consequently, share system reorganization will help foreign trade enterprises engage in trans-national business and market pluralization. In addition, it will help nurture a body of people who understand all aspects of western style corporation management, thereby making the enterprises more competitive in international markets. It will also accumulate experiences and provide the human talent needed for internationalizing the operation of large foreign trade enterprises.

6. It will help the flow and the reconfiguration of all production elements. The share system form of organization will make possible the binding together through stock shares of business enterprises spread over different areas and in different industries that have different ownership systems. Consequently, the share system is an ideal choice for the pluralization of the business of foreign trade enterprises and for the improvement of their own ability to produce and compete.

7. It will help closely link labor and the means of production. Foreign trade enterprises transformation through the share system will enable them to attract shareholders from among their own staff members and workers, thereby linking the personal interests of staff members and workers to the rise and fall or success and failure of the enterprises. This will increase the staff members and workers sense of responsibility as masters in their own house, stimulating the zeal of staff members and workers in going all out for the enterprise.

8. It will help make foreign trade enterprises think in long-range terms. Transformation of foreign trade enterprises through introduction of the share system will enable a separation of government and enterprise functions and responsibilities. Foreign trade enterprises will have independent operating authority, and will carry risks and responsibilities; thus they will be really able to shape a motivation mechanism, a risk mechanism, and a benefits-limiting mechanism that will stimulate enterprise interest in the long-term.

## ECONOMIC ZONES

### Pudong Zone Policies, Progress Viewed

HK0505152092 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 16, 20 Apr 92 pp 5-6

[Article by Ji Jincheng (1323 6651 2052): "Pudong, More 'Special' Than Special Economic Zones"]

[Text] If the 14 economic and technological development zones and five special economic zones of China can be said to be the hallmark of its opening up to the outside world in the 1980's, then the establishment of the new Pudong zone of Shanghai, more "special" than the special economic zones, is the big gate in China's opening up to the outside world in the 1990's.

### Special Policy for Pudong

Exactly in what areas is the new Pudong zone more special than the special economic zones? First of all, in the policies.

When Premier Li Peng announced the development and opening of Pudong on 18 April 1990, he pointed out: The policies granted to economic and technological development zones as well as to certain special economic zones will be implemented in the new Pudong zone.

At the news conference held by the Shanghai Municipal People's Government on 10 September 1990, the People's Bank of China, the Ministry of Finance, and the General Administration of Customs outlined the policies and relevant regulations to be implemented in the new Pudong zone.

Early this year, the State Council announced new policies for the new Pudong zone in order to support its further development.

A comparison will easily reveal that the policies granted to economic and technological zones as well as special economic zones by the state and relevant departments are all found in the new Pudong zone. In other words, the policies and regulations implemented in the economic and technological zones and in the special economic zones, such as reduction of or exemption from tariffs, industrial and commercial taxes, revenue taxes, and import-export licences, are also carried out in the new Pudong zone.

Meanwhile, certain policies granted to the new Pudong zone are not found in the other economic and technological zones or in special economic zones. These include:

- Foreign-funded enterprises are allowed by the state to engage in tertiary industries like open department stores and supermarkets in the new Pudong zone.

- The state has authorized the establishment of a stock market in Shanghai as well as the issuance of renminbi-denominated stocks (China-funded shares) and special renminbi-denominated stocks (foreign-funded shares) as a means to raise funds to meet the needs of the development of Pudong as well as of the Shanghai economy/ (among the five special economic zones, only Shenzhen was given state permission to set up a stock market).

- The state has granted permission for the establishment of a bonded zone at Waigaoqiao inside the new Pudong zone where special preferential policies such as exemption from tariffs and licences, the establishment of

locally and foreign-funded international trading organizations, retention of foreign currency in full by enterprises, and free circulation of all currencies are implemented. This is the biggest bonded zone since the opening up of China and also constitutes a free trade zone.

-In announcing the development and opening up of Pudong, the state allowed foreign businesses to set up financial institutions like banks, finance companies, and insurance companies in Shanghai, with their business activities extending all over Shanghai. (Foreign-funded financial institutions allowed by the state to operate in certain special economic zones are allowed to carry out their business within the confines of the special economic zones).

-The central authorities granted Shanghai greater autonomy in the examination and approval of productive and nonproductive projects to be set up in the new Pudong zone. Shanghai enjoys the right to examine and approve independently China- and foreign-funded foreign trade enterprises set up inside the Waigaoqiao bonded zone and engaged in transit trade.

The aforementioned policies are far more open than the policies granted to the economic and technological development zones and the special economic zones. They offer more advantageous terms for foreign-funded enterprises to take part in the development of Pudong and the economic construction of China.

#### High Starting Point in Development of Pudong

How does the development of Pudong in the 1990's differ from the establishment of the economic and technological development zones and the special economic zones in the 1980's?

To answer this question, it is necessary to compare the natural conditions, economic situations, as well as the role and impact on the national economic structural reform and national economic development of Pudong and of Shanghai on the one hand, and those of these regions on the other.

The economic and technological development zones and the special economic zones established in the 1980's were villages, islands, and fishing towns engaged in the experimental opening up to the outside world. On the other hand, Pudong is no desert nor wilderness. After more than 10 years of development, it has built a basic industry made up of more than 2,000 factories and enterprises engaged in metallurgy, shipbuilding, and construction materials. As such, it possesses a certain economic strength and an appropriate urban infrastructure. According to the State Statistical Bureau: By the end of 1991, the entire country had 475 cities in its organizational system, including 25 big and very big cities whose populations number 1 million and whose total industrial output values stand at more than 10 billion yuan. The population and total industrial output value of Pudong have long surpassed these standards. It

also means that this zone, which has yet to be called a city, is already qualified to enter the ranks of big and very big cities.

Compared with the special economic zones, the gross national product of Xiamen Special Economic Zone last year was 3 billion yuan, while that of Pudong was more than 7 billion yuan.

But Pudong is not an independent city, but merely a part of China's megacity, Shanghai. It and the Puxi region, which is just a strip of water away, form one of China's biggest economic centers.

The people of Shanghai have two sentences to describe the development of Pudong: Use Puxi to lead Pudong. Use Pudong to promote Puxi. The first sentence refers to reliance on Puxi's economic strength, technological resources, and skilled management personnel to trigger and support the development of Pudong; the second sentence means that the development and opening of Pudong should be used to promote the economic structural reform and opening to the outside world of Puxi.

Moving from remote villages, islands, and fishing towns to the city, from economically underdeveloped regions to China's biggest economic centers, this illustrates that after its experimental stage, the implementation of the policy on the opening of China to the outside world has now entered a new stage.

#### Substantial Progress in the Development of Pudong

Relying on the various preferential policies granted by the state, on the superior conditions in Pudong as well as in all of Shanghai, and on "an excellent infrastructure, promotion of financial businesses, development of trade, and advancement of industry," substantial progress was achieved in the development of Pudong in less than two years.

-Of the 10 key infrastructure projects in energy, communications, and environmental protection outlined in the plans to develop Pudong, the Pudong Coal Factory, with a daily supply capacity of 2 million cubic meters, was completed and put into production; construction of the Nanpu Bridge, which straddles the Huangpu Jiang, was completed and the bridge opened to traffic; work on the Shugang Road—Yanggao Road, which crisscrosses the new Pudong zone, and Waigaoqiao's new port area began early this year and will be completed and opened to traffic at the end of the year; after the first phase of work started at the new Waigaoqiao port area last year, a 10,000-metric-ton berth will be put into operation within the year; and the Waigaoqiao Power Plant, with installed capacity of 1.2 million kilowatts, was also constructed last year. These 10 infrastructure projects, with total investments of 14 billion yuan renminbi, will all be completed by 1995.

-So far, 21 locally and foreign-funded banks and financial institutions have set up branches in Pudong, comprising 11 foreign-funded and 10 locally funded ones.

The registered capital of these newly opened financial institutions alone led to the introduction of nearly \$600 million in capital. After the state authorized the opening of a stock market in Shanghai, trading volume doubled each year, standing at 2.4 billion yuan in 1990 and nearly 10 billion yuan in 1991. Total trading volume is expected to reach 50 billion yuan in 1995. The movement of large sums of money will lead to an enormous economic drive. The zone has already approved locally and foreign-funded construction of a total of 28 financial, trading, and office buildings over 30 storeys high, involving total investments of 5 billion yuan; foreign-funded enterprises number 175, or nearly five times the number 10 years ago, with contract capital amounting to \$700 million.

-Work began first at three major points within the new Pudong zone, namely:

1. Following the start of the construction of the People's Bank of China-funded Silver Metropolis Building in the Lujiazui financial and trading zone last year, full-scale construction will also begin on a number of office buildings and business facilities like the International Finance Building and the Finance and Trade Building, funded either partially or wholly by the Bank of China, the Industrial and Commercial Bank, the Bank of Communications, and insurance companies; building of the Customs Building designed to serve the new Pudong zone has also started; construction has also begun on Anhui's Shuan Building, Shandong's Jilu Building, Jiangsu's Jiangsu Building, and a number of projects involving central departments and ministries as well as other provinces and cities.

2. More than 30 China- and foreign-funded enterprises have entered the Jinqiao export processing zone, while projects involving central departments, provinces and cities like Xunda [3065 6671] Elevator, Xinyi Pharmaceutical, Shanghai Johnson, and Rochemont Measuring Devices [luo qi meng te 5012 2601 5536 3676] Company Limited as well as the aviation industrial zone and the Anhui Shuan Company industrial zone will begin work soon. These projects boast fairly high starting points as they involve electronic communications, precision devices and meters, biological, pharmaceutical, aviation, and aeronautical industries. The first Japanese enterprise, the Alice Garments Limited Company, went into operation at the end of last year.

3. The Waigaoqiao bonded zone is the most "special" zone in the new Pudong zone. It is also the first free trade zone to have been checked and accepted by the General Administration of Customs in China. At present, a number of projects involving processing of imported materials, processing of assembled materials, storage, and transit trade have already found their way there, including 15 whose construction will be completed soon. Foreign investments total nearly \$200 million. Work has also begun on the Sino-Japanese joint venture the Gaoguang Electronic Company Limited, while active preparations are going on for several projects like China

Aviation Technology, Gaoxin, International Tobacco, Huangzhuang, and Jiangyuan.

The first batch of land allocated to these three minizones has either been rented out or leased out. Efforts are presently concentrated in the mapping out of the second batch of land.

In order to provide more support to the development of Pudong as well as increase the sources of capital, the state has recently granted new rights to raise funds. Aside from issuance of more debenture bonds, shares, and foreign currency-denominated loans, the state will allocate an additional 100 million yuan each year starting this year. Based on the aforementioned methods, an additional 4 billion yuan can be raised each year from 1992 to 1995.

It is learned that Shanghai will further improve its investment climate by offering all kinds of services in its efforts to welcome foreign investments from all parts of the world in order to develop Pudong and take part in the economic construction of China.

#### **Shantou SEZ Leases Land for First Time**

*OW1805194892 Beijing XINHUA in English  
1433 GMT 18 May 92*

[Text] Guangzhou, May 18 (XINHUA)—Two local real estate companies were successful today in bidding for the land-use rights to two tracts of lands in the Shantou Special Economic Zone (SEZ) in Guangdong Province—the first time the zone has offered leases.

The offering of leases is regarded as a further step forward in the zone's effort to implement reform of land-use rights by changing the existing system of the free use of land—a common practice in most parts of the country for the past four decades.

The new move marks a turning point for the introduction of market mechanisms into the city real estate development program.

Some 29 local enterprises tendered bids for land-use rights to the two tracts.

One 0.53 hectare tract was leased for 21.06 million yuan (about 3.7 million U.S. dollars), while the lease on the other tract, covering about 0.66 hectares, stood at 23.23 million yuan.

The bidding has been conducted in accordance with regulations drafted earlier this year by the Shantou city government to lease land-use rights in the special economic zone.

According to the local government department concerned, the city plans to lease a total of 266 hectares during 1992, of which 166 hectares has been dedicated for industrial use.

## POPULATION

### **Shaanxi Prefectural, County Level Population Work**

*92CE0486B Xian SHAANXI RIBAO in Chinese  
8 May 92 p 1*

[Article: "Population Work at the Prefectural and County Levels in Shaanxi Province"]

[Text] **We Must Never Slacken Our Efforts**

(This section by staff commentator)

As a slackening of efforts has appeared in family planning work in certain areas of Shaanxi Province in 1992, beyond-quota births have reappeared, which phenomenon must arouse attention and be quickly rectified.

Improving our economy and reducing our population growth rate are two tasks that are basic to the vigorous development of Shaanxi Province. While everyone hopes for a faster development rate in Shaanxi, a key limiting factor to such progress is our too rapid population growth. Although Shaanxi's natural population growth rate was lowered sharply through hard work by all parties in 1991, it is still higher than the national average. We are facing an even grimmer situation in 1992, with over 100,000 more married women of childbearing age throughout the province than in 1991, which is making our population-control task even more difficult. In addition, as our basic work foundation was already weak, even a slight slackening of efforts would cause a setback. Thus, leaders at all levels must keep clear heads, firmly establish the idea of long-term persistence and per-capita concepts and, just as in economic work, increase their efforts to do a sound job of population control in 1992. We must continue to become more adept at being fully responsible, adhere to methods that have proved effective, perform tasks level by level, firmly enforce the provincial party committee and government's carrot and stick provisions, such as "yellow-card warnings" and "one-vote vetoes," and endeavor to make Shaanxi's population growth rate lower than the national average.

### **Weinan Prefecture Is Not Slackening Its Family Planning Efforts**

(This section by Xue Qingfeng [5641 7230 1496] and Cai Shengyuan [5591 0581 0337])

Despite its grim population situation of a childbearing peak in 1992, Weinan Prefecture is continuing to emphasize family planning work with no letup. The family-planning campaign of "two checks and two implementations," i.e., checking IUD's and pregnancies and implementing contraceptive measures and population plans, which was launched throughout the prefecture in the spring, has achieved remarkable success. By 20 April, 550,000 "double checks" had been conducted throughout the prefecture, for a double-check rate of 91

percent, 66,700 birth-control operations of all types had been performed, population-control measures had been widely implemented, and population plans had been achieved.

Weinan Prefecture began its 1992 family planning work early and at a fast pace. On the 10th day of the first month of the lunar year (14 February), it held a telephone conference to arouse a full-scale mobilization. Key party and government leaders at all levels took command, focusing their time and energy on an all-out struggle. Documents of responsibility for strict fulfillment of rewards and penalties were signed at each level. Townships conducting socialist indoctrination in all counties and cities made family planning a key part of their socialist indoctrination. Over 6,000 county and township cadres throughout the prefecture went deep into the rural areas to conduct propaganda and mobilization, 266 early-pregnancy-diagnosis instruments were purchased, and over 1,500 medical personnel went door to door with these instruments, beginning by checking and treating GYN diseases, in order to mobilize women of childbearing age to accept the "two checks." Stirring scenes of lining up for censustaking and married couples vying to have birth-control operations occurred in many places.

### **Wugong County Leaders Go Down to the Rural Areas To Conduct Population Control**

(This section by Guan Fengtao [1351 1496 3447])

Since the spring, the Wugong County party and government have taken effective family planning steps. By 5 May, 4,499 contraceptive operations had been performed throughout the county, which forcefully curbed the population growth rate.

Wugong County satisfactorily fulfilled its population-control plans in 1991. Since the spring of 1992, the county has paid attention to combatting unrealistic optimism and slackening of vigilance, and has continued to emphasize the "two checks" and "two implementations" campaign. The county leadership has put into effect a division-of-labor responsibility system, with county party committee secretary Liu Xiwen [0491 0823 2429] and county executive An Yunxin [1344 0061 2450] taking the lead by going deep into the rural areas to carry out population control. The county has also assigned 45 cadres to organize a family planning inspection group, with leaders from the county party committee, government, people's congress, and people's political consultative conference taking teams to each township to conduct investigations, commend and reward the most advanced, hang yellow-card warnings in the most backward, fine the leaders of backward townships, and require that leaders cannot be reassigned or promoted until the yellow-card warnings are taken down. This has set the whole county astir. All township leaders have been generally adhering to a dual emphasis on production and population control.

### Socialist Literature's Theme, Diversification Viewed

HK0606040592 Beijing QIUSHI in Chinese  
No 6, 16 Mar 92 pp 33-36

[Article by Zhang Mianli (1728 4875 0622): "Main Theme' and 'Diversification' of Socialist Literature, Art"]

[Text] Giving prominence to the main theme while achieving diversification is a theoretical issue that needs to be seriously tackled in our present task to bring about prosperity in literary and art creation. Around this important issue, there are a number of concrete points of understanding and questions arising in the course of practice that need to be studied and elaborated on. For instance, what is the main theme? Why must we give prominence to the main theme? What are the areas to watch out for in emphasizing the need to give prominence to the main theme? What is diversification? Why must we achieve diversification? How should we achieve diversification? What is the relationship between diversification and the main theme? Only by correctly understanding these questions can we properly grasp the party's and state's principles and policies regarding literature and art and further promote the healthy development and prosperity of literary and artistic creation.

What is the main theme of socialist literature and art? "Main theme" is a term used in music. In harmonized music, a particular part (usually the tenor) is most melodic and dominant, while other parts play a supporting role. This dominant melody is called the main theme. The literature and art of a period, particularly the literature and art of a revolutionary era or an era that sees great changes in class relations, are a huge composite body made up of an infinite variety of literary and art works, like a majestic and extremely complex "symphony" with multiple parts, melodies, tonal colors, and styles. Works that represent the newly rising classes and reflect the spirit of the times constitute the main theme of the literary and art works of that period. What then is the main theme of socialist literature and art? There are three different views at present. Some people think that only those works on important subject matters that take great pains to portray proletarian heroes are the main theme. Others think that all works that reflect the spirit of the socialist era, not merely those that depict important subject matters and portray revolutionary heroes, are the main theme. Still others think that all works that are healthy, civilized, positive, forward-looking, and are conducive to social progress are the main theme.

This author thinks that the first view is too narrow in its extended meaning while the third is too broad. Neither is too narrow or too broad an interpretation of the meaning of the main theme of socialist literature and art conducive to the thriving of literary and art creation. The second view, which holds that all works that can correctly reflect the spirit of the socialist era are the main

theme, is more appropriate. This includes works on the theme of revolutionary history, which turn the revolutionary heroes and heroic bodies in history into shining artistic images, and educate and inspire the people with their lofty revolutionary spirit (such as the films "The Founding Ceremony" and "The Decisive Battle"). It also includes realistic works on socialist reform and construction, which turn the advanced personages and their moving deeds in real life into shining artistic images, and use their lofty patriotic and socialist spirit to arouse and educate the people (such as the films "Wreaths Under the High Mountain" and "Jiao Yulu"). Also included are realistic works that turn the rich and colorful life of the tens of thousands of ordinary people into rich and colorful artistic images, and embody the mental outlook of the times (such as the teleplays "Anecdotes of Ordinary Folks" and "Fences, Women, and Dogs"); works that depict the tortuous course of history from the socialist position, realistically expose our shortcomings and mistakes in work, enlighten the mind and give people great confidence in the future (such as the film "The Horse Herdsman"); as well as outstanding works on other historical themes, particularly works that turn heroic images who are full of patriotic spirit and national righteousness into shining artistic images, that do not directly reflect life in the socialist era but are closely bound up with the spirit of the socialist era in their ideological content (such as the films "The Stormy Years of 1894-95" and "Lin Zexu"). In short, all literary and art works that can reflect the spirit of the socialist era and use shining artistic images to inspire and arouse the people to exert themselves in rejuvenating the nation and building socialism should be called the main theme of socialist literature and art. Thus, the main theme is not a concept with a narrow extended meaning, but neither is it a concept with no limits to its extended meaning. It is a capacious concept with specific content, which relates to the theme and characterization as well as the ideological content and artistic images of works of art.

Comrade Jiang Zemin pointed out in his speech at a meeting to celebrate the 70th anniversary of the founding of the CPC: "It is essential to encourage in-depth analysis of the problems existing in China's economic development and reform and bring about the creation of more healthy and inspiring works which will be embraced by the masses. The spirit of the socialist era should be reflected as the main theme of these works." This remark clearly tells us what the main theme of socialist literature and art is.

Why is it that socialist literature and art must have as their main theme? First, this is something determined by the nature of our society. China is in a new historical period of building socialism with Chinese characteristics. There may be difficulties and twists and turns ahead, but nothing can hold back our march toward socialist modernization. This is the general trend of historical development in China. It constitutes the main trend of social life today. The social being of men

determines their consciousness. When reflected in literary and art works, which constitute a special form of ideology, the main trend of social life becomes the main theme of our literature and art.

Second, this is something determined by the nature of our literature and art. Our literature and art are socialist literature and art and, as such, they must stick to the correct orientation of serving the people and serving socialism. The masses are working hard for socialist modernization every day. Naturally, they would like to see their fervent life reflected in literature and art. The heroic models in their midst are objects everyone learns from and admires. As literary and art works can portray characters that are more concentrated and typical than those found in real life, they will no doubt become a spiritual force that inspires the masses to rise in great vigor. Thus, giving prominence to the main theme is the fundamental way to bring literature and art closer to the hearts of the masses so they can give better scope to their great role in promoting the socialist cause. If we play down the main theme and cater to the needs of the small number of people who have a poor artistic taste, literature and art will become estranged from the broad masses. Thus, giving prominence to the main theme is necessary for socialist literature and art to serve the people and socialism.

Third, it is also something needed by the actual struggle. If socialist ideology does not prevail on the cultural front and in the arts, capitalist ideology will. A few years ago, the trend of bourgeois liberalization prevailed. Under its impact, works with unhealthy ideological content, questionable political inclinations and poor artistic taste mushroomed in the garden of literature and art. Even now, works of this kind have not been completely weeded out. For these works, we should strive to eliminate their influence through normal literary and art criticism. However, this alone is not enough. We should also strive to increase the influence of socialist literature and art by creating main theme works that can ideologically inspire and educate the people and urge them to strive for improvement while producing a strong artistic impact on the reader or audience.

In actual work, the tendency to ignore the main theme can be caused by general problems of ideological understanding or questions of principle relating to theoretical issues of right and wrong. Some people preach the "de-ideologization of literature and art," advocating that we should divorce literature and art from politics and engage in art for art's sake. Others preach the replacement of "the theory of reflection" by "the theory of subjectivity," advocating that we should turn from the "outer cosmos" to the "inner cosmos" and give expression to the self. Still others preach the "derationalization" of literature and art, advocating that literature and art should portray man's "primitive nature" and "animal nature." There are also some people who say that literature and art should portray the "unwanted" ones who have no ideals and simply fool around with nothing to do, and cannot portray great heroes. If we use

these concepts to guide literary and art creation, of course we cannot reflect the content and spirit of the socialist era, to say nothing about addressing the question of the main theme. Thus, in order to truly understand the question of the main theme, it is necessary to study Marxist-Leninist ideologies on literature and art in depth and truly sort out theoretical issues of right and wrong in the light of reality. From this, we can see that the theories against bourgeois liberalization are not in conflict with efforts to bring about prosperity in literature and art. They in fact supplement each other. It is still possible to create many works by not criticizing such erroneous views on literature and art, but can we call such a state of affairs, where the main theme is overwhelmed, a flourishing scene of socialist literature and art?

It must be pointed out that when we emphasize the need to give prominence to the main theme, we are not returning to the beaten track of "the subject matter decides everything." When the need to give prominence to the main theme is emphasized, chances are that many writers and artists will focus their attention on digging up important subject matter and reflecting the strong spirit of the times through the portrayal of heroic images. This should be greatly encouraged and promoted. However, while encouraging the depiction of important subject matters, we must also be aware that not all main theme works have to be on important subject matters. It is the inherent law of art to show the macrocosm through the microcosm and express the inevitability through the fortuitous. Provided that what seems minor are given thorough and proper treatment, they too can demonstrate the strong spirit of the times. The subject matter is but one of the important factors that affect our creation. The content of the subject matter cannot decide the success or failure of a piece of work. The decisive factor is how a writer or artist makes use of his subject matter in his artistic condensation and creation, particularly whether or not the artistic images he creates have a deep and profound ideological content, a strong artistic appeal and a high aesthetic value. Thus, we must encourage writers and artists to reflect important subject matter while encouraging them to explore more wide ranging subject matter. We must not stress one at the expense of the other.

An important question in giving prominence to the main theme is how to portray proletarian heroes. On this question, we have gained much successful experience and learned many lessons from failures over the past years. After making many useful explorations following the smashing of the "Gang of Four," we resolved to renounce the portrayal of "lofty, big, and mighty" heroes and the practice of indulging in "falsehood, lies, and empty talk." However, as bourgeois liberalization spread and people's sense of value became more and more complicated, we often came across instances in our everyday life where advanced personages were ridiculed. Aesthetic views that "play down heroes" can often be found in literary and art theories and artistic practices.

But these views cannot hold water. First, heroes are in fact constantly emerging in real life. While these heroes are mortal, they also have characteristics that set them apart from the ordinary people. They have two hands like us, but their hands are more hardworking and competent and can produce extraordinary achievements. They also have two legs, but their legs can give them a higher stance. They also have two eyes, but their eyes can see farther. While heroes in literary and art works should not be depicted as "winged immortals" who have nothing to do with this mundane world, we should and can reveal the unique qualities of these people in the light of reality and add splendor to their image in accordance with the laws of art. It was wrong that we were only allowed to portray heroes in the past, but stressing the need to "play down heroes" also goes against reality and the laws of art. A nation or society is hopeless without lofty heroes as people's role models.

Related to the question of the main theme is diversification. The diversification of socialist literature and art is diversification under the precise meaning of persisting in serving the people and socialism and upholding the "double hundred" policy. The specific content of diversification may be understood on two levels. In terms of ideological content, it includes the diversification of theme, subject matter, ideological content, characterization and artistic images. In terms of artistic form, it includes genre, style, sect, means of expression, artistic composition and creative methods. Socialist literature and art should be infinitely deep and profound in ideological content, and infinitely broad in aesthetic scope. Like the main theme, diversification is also a requirement of socialist literature and art.

Why is it necessary to develop diversification?

First, life itself is infinitely rich and varied. The wondrous and boundless universe has everything that one expects to find: Cities and countryside; borders and hinterland; industry, agriculture, commerce, education, and other trades and professions; main streams and tributaries; sunshine and shadow, stormy seas and gentle waves; flowers and weeds. Art is the dynamic and aesthetic reflection of life, and the diversity of life determines the diversity of artistic content and form and aesthetic objects.

Second, the needs of the masses are infinitely rich and varied. Like their needs for material products, people's needs for spiritual products and for literature and art are also infinitely rich and varied, that is, different. For instance, people with different values and state of mind also differ in their tastes. People with different cultural and artistic accomplishment also differ in their aesthetic standards. People with different backgrounds and sensitivities also differ in their likes and dislikes about the specific forms of literature and art. There are also vast differences in the specific needs for literature and art between different classes, strata, groups and individuals, between people from different localities and professions, between people of different temperament, and between

people of different age groups. Some people like thrillers, others like lighthearted works. Some people like things grand and heroic, others are moved by tender feelings. Some people prefer the refined, others go for popular tastes. Some people prefer things philosophical, others go for humor. There is no denying that there is a difference between the noble and the lowly, the healthy and the vulgar, the positive and the negative in people's artistic tastes. Thus, while trying to satisfy the aesthetic needs of the masses, literary and art workers have the responsibility to guide cultural consumption and help the masses improve their artistic taste. In order to satisfy the multilevel, diversified, rich, and healthy spiritual needs of the masses, and in order to cultivate readers and audiences who understand art and can appreciate beauty, it is necessary for socialist literature and art to develop diversification while giving prominence to the main theme.

Moreover, the special law governing the development of art also makes diversification necessary. Literature and art are a special kind of aesthetic ideology. They reflect the infinitely rich and complicated social life through unique and individualistic artistic images. The unique and individualistic characteristics of art are in keeping with the need to achieve diversification in art. Diversification is necessary for the development of art itself. Homogeneity, monotony, and sameness are the mortal enemies of art. To do away with diversification is to smother art. To attach importance to diversification is to open broad vistas for the development of art.

What we mean by diversification is diversification that follows the same service orientation. As far as socialist literature and art are concerned, the identity of service orientation and the diversification of content and form are two sides of the same coin. Identity and diversification represent the relationship between the end and the means. The end is identical, but the means are diversified. We cannot stray from the aim of service in developing diversification, but neither can we put diversification out of our mind and indulge in empty talks about "service." The orientation of serving the people and socialism not only opens broad vistas for the development of diversification, it also sees to it that diversification develops healthily along the correct road. Things that betray the orientation of serving the people and socialism, poison people's mind, pollutes society and go against socialism are spiritual pollution that must be eliminated. They are not what we mean by "diversification."

Furthermore, our idea of diversification has different levels, priorities and emphases. The diversification of socialist literature and art is broad in scope. On the one hand, it is varied and not confined to one pattern; but on the other hand, it has different levels, priorities, and emphases and does not apply force in equal proportions. On the whole, our literature and art (including those inherited from the past and those imported from other countries) may be divided as belonging into three major levels: 1) Those that should be accorded priority in



development. Literary and art works that can give expression to the strong spirit of the socialist era, have a high aesthetic value, and can constitute the main theme of socialist literature and art should be accorded top priority in development. They should be improved in quality and increased in quantity so they can play a leading role in socialist literature and art as a whole. 2) Those that should be encouraged. Comrade Jiang Zemin pointed out in his "July 1" speech that we should "encourage...the creation of more healthy and inspiring works which will be embraced by the masses." Not all of these works can become the main theme, but since they are basically healthy, inspiring, and conducive to social progress, their development should be encouraged. Works which should be "accorded priority" and those which should be "encouraged" constitute the main body of socialist literature and art. 3) Those that can be tolerated. There are some literary and art works which are relatively weak in social content. While their existence is neither beneficial nor harmful, they do have some value for aesthetic purposes and can satisfy certain aspects of the aesthetic needs of the masses. As they are not things that poison people's minds, pollute society, and run counter to socialism, they should be tolerated and appropriately developed. Works of this kind do not account for a large proportion and do not constitute the main body of literature and art, but they can be taken as necessary supplements.

How should we handle the relationship between the main theme and diversification? In the proper handling of this contradiction, we must take care to give prominence to the main theme on the basis of developing diversification and develop diversification under the ideological guidance of giving prominence to the main theme. We must see to it that the two can guarantee the socialist orientation of literature and art, and ensure that socialist literature and art will have wide prospects. Let us make a joint effort to compose a "symphony" in our great times, a "symphony" that has a resounding and moving main theme as well as a rich and varied melody.

### **Rules for Management of Firearms**

*HK2605121892 Beijing FAZHI RIBAO in Chinese  
10 May 92 p 2*

[Report: "Rules for Management of Firearms and Ammunition for Shooting Events"]

#### **[Text] Chapter 1: Preamble**

Article 1. In light of the "PRC Rules for Management of Firearms," these rules are formulated to strengthen management over the production, use, transportation, management, and sales of firearms and ammunition for shooting events; ensure normal operation of shooting events; maintain public order; and prevent casualties and accidents.

Article 2. Firearms and ammunition for shooting events (hereinafter sports firearms and ammunition) refer to the following firearms and ammunition used in shooting events:

1. Sports rifles and pistols with a caliber of 5.6 mm;
2. Large sports rifles and pistols with a caliber of 7.62 to 9.65 mm;
3. Hunting rifles and air rifles and pistols used in shooting events; and
4. Army rifles and pistols used in shooting events.

Article 3. These rules should be followed by units and individuals engaged in shooting events and activities in the PRC.

#### **Chapter 2: Development, Production, Supply, Purchase, Possession, and Transfer of Sports Firearms**

Article 4. All kinds of sports firearms and ammunition shall be developed and manufactured in a unified way by the scientific research units and factories designated by the state. No unit or individual will be allowed to develop, transform, or assemble firearms without authorization.

Article 5. Sports firearms and ammunition used in the country shall all be planned, ordered, and supplied by the State Physical Culture and Sports Commission.

If local sports committees intend to import sports firearms and ammunition for their outstanding athletes, they should first submit applications to the State Physical Culture and Sports Commission and the public security departments or bureaus of the relevant provinces, autonomous regions, and municipalities for approval.

No unit or individual shall be allowed to sell sports firearms and ammunition. The sale of sports firearms and ammunition manufactured by ordnance enterprises which are not included in the planning of the State Physical Culture and Sports Commission is prohibited.

Article 6. With the approval of the sports committees of the provinces, autonomous regions, and municipalities, only the units involved in shooting events may purchase and possess sports firearms and ammunition.

Article 7. Orders for sports firearms and ammunition can only be placed with the examination and approval of the sports committees of the provinces, autonomous regions, and municipalities as well as the city or county public security organs. With the permit obtained to purchase and transport, the firearms and ammunition can only be purchased at the units designated by the state.

Article 8. Those needing to purchase sports rifles for special purposes or hunting must first be examined and approved by the sports committees and public security departments or bureaus of the provinces, autonomous



regions, and municipalities. The Forestry Ministry will collect their applications for examination and approval, which will be handled in a unified manner by the State Physical Culture and Sports Commission.

Article 9. Individuals are not allowed to purchase and possess sports rifles and ammunition.

Article 10. If units which are authorized to possess sports firearms and ammunition want to turn over and transfer their firearms and ammunition they must undergo relevant procedures with the approval of the higher-level sports committee and the public security organs of the city or county.

Article 11. To borrow firearms from a licensed holder of sports firearms and ammunition, the borrower must submit an application. With the consent of the sports committee of the holder's side and the sports committees of the relevant provinces, autonomous regions, and municipalities, and the approval of the city or county public security organs, the units concerned may borrow firearms but must return them by the prescribed time.

Individual borrowing or lending of firearms and ammunition is prohibited.

### **Chapter 3: Management of Sports Firearms and Ammunition**

Article 12. Units possessing sports firearms and ammunition must register with the relevant city or county public security organs and apply for a holder's license.

Article 13. The sports firearms and ammunition of all units must be stored in special arsenals or safes examined and approved by the city or county level sports committees and public security organs. Firearms and ammunition should be kept separately. The locations of the arsenals must be within the compound of the offices and institutions. Reliable personnel should be assigned to guard the arsenals and alarm devices must be installed. Strict precautions must be taken against loss, robbery, or other accidents.

Article 14. All units should assign reliable personnel to take care of the firearms and ammunition (distribution of the caretakers should be examined and approved by the local security and personnel departments). Names and resumes of the caretakers should be submitted to the local sports committees and public security organs for the record. There must be a leader from all units concerned to take special care of security of firearms and ammunition.

Article 15. Systems of receiving and dispatching registration, regular inventory, and recovery of remaining rounds should be strictly established for the arsenals. When robbery or loss of firearms and ammunition are discovered, it is necessary to immediately report to the local public security organs and the sports committee at the higher level.

Article 16. No unit or individual is allowed to make use of work relationships to hold, present as gifts, share privately, or replace firearms and ammunition.

Article 17. Public security organs and sports committees should frequently inspect and exercise supervision over security work of the units which possess sports firearms and ammunition.

Article 18. The ranges for operational shooting events shall be handled in light of the state's regulations for shooting ranges.

### **Chapter 4: Use, Holding, and Destruction of Sports Firearms and Ammunition**

Article 19. Use of firearms and ammunition is limited to the units where shooting events are carried out in an organized way under proper leadership and to the shooting ranges examined and approved by the provinces, autonomous regions, and municipalities and local city or county public security organs and where security for shooting is ensured. Shooting outside the shooting ranges is prohibited.

Article 20. Except with approval obtained for special reasons, use of sports firearms for hunting purposes is prohibited.

Article 21. Individuals are not allowed to carry pistols to public places and tourist areas. If sports firearms license holders want to take part in shooting events and to go to places where firearms are not allowed, the regulations of the state and local government apply.

Article 22. Those carrying firearms and ammunition to other localities to take part in training and sports events must at the same time carry the licenses. They should strictly abide by the relevant regulations of the public security organs and transport departments. To carry sports firearms and ammunition abroad for training and contest purposes, a "declaration of firearms and ammunition possessed by personnel leaving or entering the country" should be completed and submitted to the border checkpoint. After the exit permit issued by the city or county public security organs is verified by the inspection station, the personnel may leave the country. When they enter the country again after completing their training and contests, they must complete another declaration form. They may enter the country after verification by the checkpoint.

Foreign sports teams which intend to carry sports firearms and ammunition to China to take part in training and contests must obtain approval from the State Physical Culture and Sports Commission. Before entering the country, they should first complete a declaration form at customs. They will be given a license after verification by the inspection station. After their arrival at the training or contest place, they should register with the relevant city or county public security organs. Before leaving, they should cancel their registration with the city or county public security organs. Before exiting, they should make a declaration at the customs and hand over their license to the border checkpoint.

Article 23. All units should make lists of the models, numbers, and amounts of firearms that are to be eliminated or that cannot be used. With the approval of the sports committees of the provinces, autonomous regions, and municipalities, the lists will be submitted to the city or county public security organs for verification and registration. After taking back the licenses and making the decision on destruction, the firearms shall be destroyed at the smelteries designated by the public security departments or bureaus of the provinces, autonomous regions, and municipalities in the presence of personnel sent by the units concerned and local public security organs.

Without authorization from the State Physical Culture and Sports Commission and Public Security Ministry, no unit or individual may purchase or sell firearms and ammunition (including purchasing or selling abroad).

#### Chapter 5: Punishment

Article 24. The sports committees at a higher level and the local city or county public security organs have the right to suspend the shooting events of units which have violated these rules or which have serious hidden problems which have not led to grave consequences, and order them to effect changes within a prescribed time. If violation of these rules has led to grave consequences, disciplinary action will be taken against the person in charge and those involved in light of the seriousness of the case. Those who have violated security management will be punished according to the "Regulations for

Meting Out Punishment Against Violation of Security Management." If the act constitutes a violation of criminal law, those involved will be held responsible for the crime.

#### Chapter 6: Supplementary

Article 25. The sports committees and public security departments or bureaus of all provinces, autonomous regions, and municipalities may formulate detailed rules and regulations for the management of sports firearms and ammunition in line with local conditions, which should be submitted to the State Physical Culture and Sports Commission and Public Security Ministry for the record.

Article 26. The sports firearms and ammunition required by the People's Liberation Army, armed forces, and public security organs for special training or contests shall be examined and approved respectively by the General Staff Headquarters of the Central Military Commission, Armed Forces Headquarters, and the Public Security Ministry and handled by the State Physical Culture and Sports Commission. These rules also apply to the use, management, and possession of sports firearms and ammunition by the above-mentioned units.

Article 27. The State Physical Culture and Sports Commission and Public Security Ministry shall be responsible for the interpretation of these rules.

Article 28. These rules go into effect from the date of promulgation.

### Hubei Marks Mao Militia Instructions Anniversary

*HK2506094492 Wuhan Hubei People's Radio Network in Mandarin 1000 GMT 18 Jun 92*

[Text] On 17 June, the provincial party committee, government, and military district jointly held a conference in Wuchang to commemorate the 30th anniversary of the publication of the late Comrade Mao Zedong's three-implementation instruction on militia work as well as to commend advanced units and individuals that had excelled in the provincial grass-roots militia building work.

At the conference, Chen Zuocai, provincial military district deputy commander, read out a decision made jointly by the provincial party committee, government, and military district on commending advanced units and individuals that had excelled in militia building work as well as an inscription written by Liu Huaqing, Central Military Commission vice chairman, reading: Work Hard To Build a Powerful National Defense Reserve Force.

Chen Zuocai also read out inscriptions written by Qin Jiwei, state councillor and defense minister; Chi Hao-tian, chief of the general staff; and Comrade Chen Zaidao.

[Provincial party committee secretary] Guan Guangfu also delivered a speech at the conference, in which he spoke highly of the provincial militia work achievements. He stated: Over the past 30 years, especially since the Third Plenary Session of the 11th CPC Central Committee, the provincial armed forces work front has resolutely implemented and carried out the basic line of one center, two basic points as well as a series of principles governing the national defense reserve force building work in light of actual local conditions, persisted in reform and innovation, and continually forged ahead through constant explorations. As a result, the

provincial militia reserve force work has taken on a new look. We feel proud and elated at having built such a staunch force.

Guan Guangfu also advanced concrete requirements on implementing in an in-depth manner the three-implementation instruction on militia work and further stepping up the militia reserve force building work.

On behalf of the Guangzhou Military Region, Lieutenant General Li Xilin, Guangzhou Military Region deputy commander, fully affirmed Hubei's efforts in implementing the three-implementation instruction on militia work.

Liu Guoyu, provincial military district deputy commander, reported on the provincial militia reserve force work over the past 30 years at the conference.

Xu Shiqiao, provincial military district deputy political commissar, relayed the spirit of a national militia reserve force work conference as well as the spirit of a similar conference convoked by the Guangzhou Military Region.

Qian Yunlu, provincial party committee deputy secretary, as well as Li Daqiang, Wang Shen, Wang Guobin, and others attended the conference.

Also attending the conference were Central Advisory Commission Member Yan Zhen as well as a number of former provincial military district leaders, such as Zhang Xiulong, Zhou Zhigang, Zhao Fuqing, Xie Zhenjie, Li Ruihua, Wang Hengyi, and Zhou Hanzhong.

Wang Jieqing, provincial military district political commissar, presided over the conference.

During the conference, the provincial military district also organized a speech contest called: Love Armed Forces and Devote Your Whole Life to National Defense Work and staged a militia military contest and a militia military performance. Moreover, the conference participants also watched some television programs depicting the provincial militia work achievements over the past 30 years as well as a photo exhibition and contributed commemorative articles for the occasion.

## EAST REGION

**Shanghai Unit To Integrate Education, Research**  
*OW1105142792 Shanghai WEN HUI BAO in Chinese*  
*8 May 92 p 1*

[Article: "Hands Joined To Promote Integration of Science and Technology With Production"]

[Text] The "Shanghai Municipal Leading Group for Integrating Production With Education and Research Work," organized by the municipal economic commission, the Shanghai branch of the Chinese Academy of Sciences, the Shanghai Science Academy and the municipal higher education bureau, and the "Office for Coordinating Integration of Production With Education and Research Work" were established in Shanghai yesterday. Their purpose is to strengthen joint work by production units, scientific research institutes, and schools of higher learning. This is an important measure to coordinate and promote integration of production with science and technology.

The newly established "Shanghai Municipal Leading Group for Integrating Production With Education and Research Work" is headed by Li Xiaogang, vice chairman of the municipal economic commission. Leading members of the municipal economic commission, the Shanghai branch of the Chinese Academy of Sciences, the Shanghai Science Academy, and the municipal higher education bureau were appointed deputy heads of the leading group. The Office for Coordinating Integration of Production With Education and Research Work is located in the Shanghai Municipal Industrial Technology Development Foundation building.

The main activities of the leading group and the office this year include: establishing a market for industrial technologies in Shanghai to promote technology exchanges; accepting requests from industrial enterprises to tackle difficult problems and registering and disseminating information on transferable scientific and technological achievements of schools of higher learning; unfolding activities of "developing production of key products, inviting open bids to tackle difficult problems in production, and transferring scientific and technological achievements"; drafting projects for integrating production with educational and research work; providing preferential loans and certain subsidies for concerned units; obtaining information on new and advanced technologies at home and abroad; promoting cooperation among industrial enterprises, schools of higher learning, and research institutes in holding technical training classes and exchanging experiences in solving difficult problems; selecting scientific and technological achievements of schools of higher learning and research institutes in such fields as laser and sensor technology, liquid crystal television technology and bioengineering technology, and putting them to use in enterprises.

The newly established "Shanghai Municipal Leading Group for Integrating Production With Education and

Research Work" announced yesterday that the fourth municipal trade meeting to invite open bids for developing the production of key products and tackling difficult technological problems will be held at the Shanghai Exhibition Center from 21 to 26 May. At the meeting, 138 technological problems will be open for bids; more than 180 kinds of scientific and technological achievements can be transferred.

## NORTH REGION

**Beijing Suffers From 'Acute Water Shortage'**  
*HK0806122192 Beijing ZHONGGUO XINWEN SHE*  
*in English 1112 GMT 8 Jun 92*

[Text] Beijing, June 8 (CNS)—Beijing residents were informed today that their city is one of the 50 cities in China suffering from an acute water shortage. In these cities, the guaranteed rate of water supply is only 65 percent of full supply during the peak consumption period.

A big water-saving campaign was launched today in view of the fact that the water supply situation in Beijing is especially grave this year, according to an official of the municipal water-saving office. Rainfall last winter and this spring was nearly normal, but there has been a recent drought with rainfall measuring only one-tenth of the average of past years. Underground water has long been over-exploited and with the completion of a large number of residential buildings, the demand for water has been greatly increased.

China is a country short of adequate water resources, ranking 88th in the world in its per capita availability of water. Of its national water resources, less than half can be used for urban industrial and residential consumption.

Faced with such an acute water shortage, the Beijing Municipal Government has empowered the water-saving administration with legislation, promulgating more than 11 rules and regulation on the conservancy of water.

**Datong City Moves To Attract Foreign Investment**  
*92CM0311A Taiyuan SHANXI RIBAO in Chinese*  
*20 Apr 92 p 1*

[Article by Liu Jinbao (0491 6855 1405), Chang Shilong (1603 0013 7893), and Fan Jianghong (2868 3068 3163): "Datong Encourages Sino-Foreign Joint Ventures with Preferential Treatment"]

[Text] The ancient city of Datong has opened its door to the outside world in the past 2 years. Attracting foreign investors with preferential policies and competing on the world markets have increasingly become the thrust of the city's economic policy.

The municipal CCP committee and municipal government have become more and more convinced in recent

years that their historically and culturally renowned city with a million people would have difficulty increasing its comprehensive economic prowess by relying solely on state investment in the energy industry and its own accumulation. Only by enhancing open-policy awareness overall, utilizing its advantage in energy, land, and tourism, attracting foreign capital, and introducing advanced technology and management skills even as it boosts the mainstay energy industry can Datong's economy develop in a leap-frog fashion. Last year, therefore, they took two effective steps to encourage Sino-foreign joint ventures.

First, it formulated a preferential policy to attract foreign investors. Besides preferential treatments offered by the state and the province, the foreign businessman who invests and builds a plant in Datong also will enjoy preferential terms in a dozen areas. For instance, other than items that are banned from export by the state, the products of his plant destined for overseas markets will be exempt from the integrated industrial and commercial tax. When a business remains in operation for more than a decade, it will be exempt from business income tax for 2 years starting with the year when it makes a profit and will pay business income tax at half the rate from the third through the fifth years. It also will be exempt from local income tax for 10 years. No money will be set aside from the enterprise's extra-budgetary funds as contributions to the energy and transportation construction fund and urban infrastructure fund. Nor will it be required to purchase electric power bonds. When an investor reinvests in China the profit derived from the enterprise, he will get a tax refund equivalent to 40 percent of taxes already paid on the sum reinvested. When an investor reinvests his profit to build or expand an enterprise that will manufacture goods for export or that will apply advanced technology and will remain in operation for no less than 5 years, the income tax on the reinvested profit that has already been paid will be refunded in full. These and other preferential treatments designed to encourage foreign investment in Datong have made foreign businessmen sit up and take note.

Second, it created the material conditions conducive to foreign investment. Datong has its own strengths. For instance, it boasts good-quality dynamic coal, ample and inexpensive electric and land resources, and world-famous places of historic interest and scenic beauty, such as Yungang grottoes and Huayan Monastery. On the other hand, it also has numerous weaknesses, including water shortages, backward means of communications, a poor urban infrastructure, and inaccessibility, all of them no doubt hampering foreign investment. Today the Datong CCP committee and municipal government are working mightily hard to solve these problems. They built the Cetian reservoir and diversion works with 100 million yuan, hard-won money from the state and the departments involved, thereby significantly easing the shortage of industrial water in the entire city. It has helped the postal and telecommunications department in importing from Spain the S1240 program-controlled

telephone system. When the system becomes operational, direct-dial telephone service between Datong and the rest of the world will become a possibility, along with several other services. In addition, they have invested in improving the urban landscape, repairing and widening a dozen major roads and 200 streets and alleys in the city. They took the initiative to approach the national civil aviation authorities and had a civil aviation ticketing office set up in Datong. They also took active part in the construction of an airport. Moreover, they have selected the strongest enterprises in Datong as partners in Sino-foreign joint ventures, helping them develop new products and improving product quality, enterprise management standards, workers' quality, and the business climate.

These liberal and practical measures have vastly enhanced the appeal to foreign investors of building a plant in Datong. Altogether nine Sino-foreign joint ventures have emerged in the city in the past 2 years, some of them already in operation and making a profit. Last year the city absorbed 20 million yuan in foreign capital, about two-fifths of the province's total foreign investment, and agreement was reached with foreign investors on four joint-venture projects involving substantial foreign capital that would make upscale chinaware, steel, bean products, and vegetables.

Even as Datong works to attract foreigners to invest in the city, it also goes overseas to open up a "window" in other countries. Last year the city's Diversification Development Company and its Economic and Technical Cooperation Corporation formed a partnership to open Chinese Imperial Restaurant in Ulan Bator, Mongolia's capital, a joint venture with the Mongolians. Datong has launched international trade through this "window," importing and exporting 4.9 million yuan worth of goods in just 3 months last year.

Recently Datong Diversification Development Company has reached agreement with Aziluo Company of Uzbekistan to set up in Tashkent the Tongda Company Ltd., a Chinese restaurant, a Chinese goods shopping center, a color copy center, and two small processing plants. The project has already been approved by the province's foreign economic relations and trade office.

### **Economic, Social Problems of Sex Ratio Imbalance**

92CM0311B Taiyuan SHANXI RIBAO in Chinese  
10 Apr 92 p 3

[Article by research office of Shanxi Women's Federation: "Imbalance in Sex Ratio in Rural Shanxi"]

[Text] We noticed a shocking social phenomenon in our recent provincial census and during our surveys on some villages in Ningwu and Yuanping counties, namely, a serious sex imbalance, with all its grave consequences.

1. Serious sex imbalance. In human society, the normal ratio between men and women is 103-106:100, with

women as 100. According to data from China's fourth census of the population in 1990, the sex ratio in Shanxi was 108.4:100. According to calculations by the Ministry of Public Security, the province's sex ratio by late 1991 was 109.44:100, the highest in the nation. Our own studies show that the male proportion of the population is higher still in some areas. In Jingle County, for instance, the sex ratio is 122.76:100; Ningwu County, 121.81:100; and among children ages 1 to 7 in Dunyang Township, Yuanping County, a high 130:100.

2. Causes of sex imbalance. The principal cause of sex imbalance is the widespread preference in the countryside for male infants to female infants. To begin with, when productive forces are at a low level and methods of operation are backward, physically strong male workers are needed. The profitability of operations depends to a large extent upon the size and strength of the male work force. Second, feudal religious ideas die hard. Many people still subscribe to the notion that only sons can provide for them in their old age, bury a dead parent, and carry on the family name. Third, there is the influence of the traditional idea that a man takes a bride (qu) whereas a woman is married off (jia) to another family. When a son takes a bride, he boosts the family's manpower. The daughter who gets married is like water that has been poured out.

3. The most striking adverse consequence of sex imbalance is that young men have a hard time finding a wife. An isolated mountain hamlet, Xiyu Village in Yuanping County has a sex ratio of 179:100, with 440 men out of a total population of 685, including 41 bachelors age 25 and above. Baishi Village in the same county has 72 bachelors above the age of 30 out of a total population of less than 1,000; there are 12 households each with 2 or 3 single males. The difficulties men experience in finding a wife, in turn, have enabled mercenary marriage to flourish, for one thing. To secure a daughter-in-law, many families are ready to go into bankruptcy. According to a study, the value of betrothal gifts a man bestows on the family of his bride has ballooned from the 5,000 yuan or so in 1985 to 8,000, 9,000, even 10,000 yuan today. Second, the taking of child daughters-in-law has become very popular. Third, wife-buying has also become widespread. Baishi Township in Yuanping County is a small township with less than 6,000 people.

Of the 112 women who married into the township in recent years, 82 were bought for a hefty price. Fourth, the divorce rate has increased due to third-party involvement. Flouting morality and the law, some bachelors get involved with other families. Of the 176 civil cases handled by Ningwu County in 1990, 51 percent were divorce cases. Of these divorce cases, 66 percent were caused by the involvement of a third party. Sex imbalance has hampered the development of the productive forces; since it costs so much to get married, a family might toil and save for years and still finds that it cannot afford to pay for the wedding of one son. Under these circumstances, investing in expanded reproduction is simply out of the question. Sex imbalance is a potential cause of social instability. Kidnapping has become a serious problem. Crime is on the rise in society. To find the money to get married, some young men act recklessly and drift into crime. Sex imbalance also has bred some bad habits in society. In the countryside you can find such anomalies as one woman having two husbands and older women marrying younger men.

4. Some suggestions. Sex imbalance and its dire consequences should be a top priority for leaders at all levels. 1) Economic policies should favor the mountain areas. Take vigorous measures to solve transportation, water, and electricity problems in the mountain areas to create conditions that would encourage local economic development. 2) Broaden the circle from which people find their marriage partners. In many places in the mountain areas, people confine their search for a spouse to their own villages or neighboring villages. Their social circles are very small. The departments concerned should take effective steps to expand village youths' circle of social intercourse. In areas where provinces meet, channels should be opened up for inter-provincial marriage. The competent organizations should set up legitimate inter-provincial channels to help peasants solve their difficulties in finding a marriage partner. 3) Strictly tighten control the sale and use of modern medical testing devices, particularly the B chao [6389] instrument. Many pregnant women use just such modern equipment to find out the sex of their fetuses and abort them if they turn out to be female. 4) Intensify development of spiritual civilization in the countryside. Eradicate the preference for baby boys to baby girls. Accelerate the universalization of scientific education. Increase scientific literacy among peasants. Instill the idea that men and women are equal.

## Businessmen Meet Japanese To Discuss Trade Deficit

OW1206090592 Taipei CNA in English 0739 GMT  
12 Jun 92

[Text] Taipei, June 12 (CNA)—Business and industrial representatives from Japan and Taiwan are meeting Friday at the Taipei International Convention center on the ever-increasing Sino-Japanese trade gap and its resolution.

The meeting, dubbed "Sino-Japanese Commerce and Industry Cooperation Conference," will be jointly presided over by Tetsuo Fujimori, an advisor to the Japan Chamber of Commerce and Industry, and Koo Chen-fu, chairman of the Chinese National Association of Industry & Commerce.

Taiwan's trade deficit with Japan, totaled US\$9.7 billion in 1991, is expected to exceed US\$11 billion this year, an official of the board of foreign trade said.

## Penalties More Severe Under New Copyright Law

92CE0503C Taipei CHING-CHI JIH-PAO in Chinese  
23 May 92 p 2

[Article by reporter Kao Yuan-liu (7559 3293 3177):  
"Increased Jail Terms for Violators of the Copyright Law—Newly Revised Copyright Law Allows Procurators, Police To Investigate on Their Own Initiative"]

[Text] After revision of the copyright law, all local investigative agencies will no more have to await receipt of a complaint, but may investigate all habitual violations of the copyright law on their own initiative. Furthermore, since the new law raises the most severe basic penalties of the legal provisions, habitual offenders and others who illegally copy on a commercial basis, if found guilty in court, will in future have no possibility to have penalties commuted to the payment of fines, also little opportunity to have sentences suspended, as danger of imprisonment has now been greatly increased.

Lawyer Chang Ching [1728 7234] indicated that the newly revised copyright law has raised the severity of penalties of the old law. Punishment for habitual offenders was raised from the "six months to not over five years" in the old law to "from one year but not over seven years" imprisonment. This clause of the law was also changed from having been an offense which would only be prosecuted on receipt of a complaint, to an offense that does not require a complaint to have been filed; the offense may be investigated by the procuratorate or the judicial police on their own initiative without having to await a complaint.

Punishment for commercial pirating of copyrighted material was raised from the "over six months to not over three years" of the old law to "over six months to not over five years" imprisonment. Because term imprisonment can be commuted to fine in money only if the base punishment is at most "not over three years" the

level of the newly raised punishment blocks any commutation of the prison sentence to fine.

This means that under the old law anyone who committed the offense of pirating copyrighted material, even if found guilty in court, was not in danger of definitely having to go to jail. As long as the court would have sentenced him to less than six months imprisonment, every defendant would have had a chance to have his prison term commuted to a fine. Even in case the sentence was for less than two years in prison, there was a possibility of a suspension of sentence.

Therefore, after enforcement of the new law, anyone who commits an offense for which the most severe base punishment is "up to five years" or "up to seven years," even if actually sentenced to only 6 months or less than six months, cannot have his sentences commuted to a fine. As to the suspension of sentences, since there are important preconditions in penal law for the suspension of sentences, and also in cases where the defendant could not arrive at an amicable settlement with the injured party, the law court will hardly pass a suspension of sentence, so that it will in future be very difficult to obtain a suspension of sentence. As sentences will hardly be commuted to fines and suspensions will be difficult to obtain, it seems jail will become unavoidable.

Chang Ching pointed out that the provisions of the old law were rather hazy on the question of rights of MTV's [movie on television video parlors] to publicly broadcast. Not only did disputes frequently arise when checking them out and investigating them, but many of these cases were also later dismissed by the courts, finding the accused not guilty of any offense. The new law provides very clear provisions to deal with these problems.

Furthermore, because the old law had lacked distinct provisions, copyright owners could not effectively and immediately stop the importation or exportation of copyrighted material by the copyright violators. After revision, the new law will allow the copyright owner, on providing an appropriate guarantee, to immediately request apprehension of pirated materials.

Reporter Wang Shih-chun [3076 1102 3196], reporting from Taipei:

Yesterday, Minister of Justice Lu Yu-wen [0712 2589 2429] said, in order to protect intellectual property rights, the ministry of justice has decided to study and revise the "Regulations Raising Fine Standards," and will raise the amounts of fines for violators of the copyright law. The text of the revised regulations is presently being drafted.

As the draft of the revised copyright law changes some offenses into crimes subject to public prosecution, Minister of Justice Lu Yu-wen said the procuratorates will in future investigate and prosecute such crimes on their own initiative.

Minister Lu pointed out that the revision of the "Regulations Raising Fine Standards" will probably take two directions: one is that those who according to law are to be fined in money will have the multiple of the original penalty again increased. The other way will be to raise the amount of fine in case of commuted sentences. He said that the present conversion rate of 30 silver dollars for one day is really too low; converted to a fine in money, one day would then be the equivalent of NT\$90.

Legislative procedure for the revised copyright law was completed yesterday. As complementary measure, the ministry of justice will have to instruct the superior procuratorate to instruct procuratorates and procurators at all levels to seek specific convictions in all cases of violation of the copyright law, and to request the courts to impose the heaviest possible penalties. In cases where the sentence is for less than 6 months and a commutation to fine in money can be obtained, it should be carefully examined whether Article 41 of the penal code applies [sending to labor camp].

Reporter Chou Te-hui [0719 1795 1920], reporting from Taipei:

The Judicial Yuan yesterday passed the revised Copyright Law in three readings. The Ministry of Economic Affairs indicated yesterday that it will in future deal more severely with violators of the law, effecting a more intensified protection of the rights of copyright holders. This is a great step forward in China's increased efforts to protect intellectual property.

Reporter Huang Hung-chun [7806 7703 6874], reporting from Taipei:

The new copyright law is considered by the public as "fierce tiger" and "fierce medicine," but Wang Chuan-lu [3769 0356 4389], chairman of the Copyright Committee of the Ministry of Interior, indicated that compared with the current law, the new copyright law, in the rational extension of its sphere of application, is, as far as popular consumption and the various trades are concerned, not only not "wild tiger and wild animal," but may rather be said to be "excellent medicine."

Wang Chuan-lu emphasized that the current copyright law prescribes that the user of someone else's copyrighted material must always obtain approval, and that using the material without approval is a violation of the law. The new copyright law bases on the consideration that the copyright owner must bear a moral responsibility for cultural transmission, so that in case of necessity the material could be used without the consent of the copyright holder, and the sphere of "reasonable use" has also been expanded.

The current copyright law has only four articles dealing with the question of "reasonable use," for instance, the selective use of someone else's copyrighted material in the compilation of an educational textbook, or that public organs may reproduce someone else's copyrighted material in response to the demand of someone for

perusal or to provide it for someone's research. The new copyright law has extended the provisions for "reasonable use" to 20 articles. It has added to the former sphere of applications such cases as: anyone may use writings that he comes in contact with and that he needs when reporting on current events by broadcasts, photography, or in newspapers; if material is provided to an individual or to a household without profit motive and within reasonable limits, using nonpublic equipment for its duplication, already openly published materials may be used.

Wang Chuan-lu said, analyzing the cases of "reasonable use," that formerly, home-recording of television programs had already to be considered violations of the copyright law. After implementation of the new law, such acts are no more illegal. In sum, the current law is extremely severe, but it is only that its offenses are prosecuted only on complaint. Mostly holders of copyright will not file complaints, and the general public had also quite unconsciously become accustomed to such a state of affairs.

#### Editorial on Contrasting Views on PRC Investment

92CE0541A Taipei CHING-CHI JIH-PAO in Chinese  
29 May 92 p 2

[Editorial entitled "Current Views on Mainland Investments"]

[Text] Ever since the PRC officials announced the opening of the mainland markets and the decision to further open up the mainland's commercial, foreign trade, banking, insurance, shipping, civil aviation and other businesses in the tertiary industry to foreign businesses, and especially with the announcement that the mainland will open up more to Taiwanese businesses than to other foreign businesses, Taiwan has reacted with great enthusiasm. However, industry, government, and academia have reacted differently to such news. If the discord is allowed to persist, it not only will undermine Taiwan-Mainland trade relations but will also adversely affect Taiwan's future economic development. We should be concerned.

In the entrepreneurs' opinion, in recent years, the value of the NT [New Taiwan] dollar has appreciated substantially, there is a labor shortage, wages have soared, land price has skyrocketed, and the investment environment has gone sour. For many industries, there is no more room for growth in Taiwan. Meanwhile, the mainland not only offers cheap and ample labor and land resources, it also has a huge domestic market. On the surface, the local people throughout the mainland do not appear to have a high consumption level. But the mainland has a population of 1.2 billion; its overall purchasing power should not be overlooked. It is a huge market, and if the Mainland decides to further open up its domestic market, Taiwan's manufacturers can expect much more business. Meanwhile, Taiwan's enterprises



are generally small-scaled, and if they want to compete internationally in the future, they must expand the scope of their operation. The mainland's huge domestic market can lower marketing cost and increase investment return. Developing the mainland's market will be an important way to expand the Taiwanese enterprises' operation. For this reason, many manufacturers who have already invested in the mainland are studying ways to increase investment to capture a larger market share. Those who have not yet invested in the mainland, upon realizing the possibilities of developing the mainland market, are eager to try their luck. Even industries that the government has explicitly prohibited from investing in the mainland are very anxious to venture over there. In particular, when it comes to the tertiary industry's service sector, the mainland had refused to open up that industry in the past, and even when they did open up a few areas, they imposed many restrictions. Today it is still very much a Mainland state-run industry, and overall, it is plagued by such problems as backward management concepts and methods, poor service, and inability to satisfy market demands. These problems have become a major obstacle to the economy's further development. Its opening up will mean huge growth potential. For this reason, those in the banking, insurance, trade, shipping, and civil aviation businesses as well as accountants and lawyers are eager to visit the mainland and capture a piece of the mainland market. There is bound to be another wave of mainland investment craze.

However, the government is not as optimistic as the entrepreneurs. Huang Kun-Hui [7806 2492 6540], chairman of the Executive Yuan's Mainland Affairs Commission which oversees mainland policies, pointed out that the mainland's state-run enterprises have become a heavy financial burden to the mainland as well as a major obstacle to the economic reform which the Chinese Government is anxious to promote. They have acknowledged that the state-run enterprises have serious problems and are trying to make improvements. In their effort to promote enterprise reform, the relevant mainland departments have asked enterprises to take care of their own profits and losses and have urged them to actively capture international and domestic markets. So why would they give up their domestic market share at this time? These signs make one suspicious of the motive and the sincerity of the mainland opening up of its domestic market. Ma Jiu-Ying [7456 5391 0046], vice chairman of the Mainland Affairs Commission pointed out unequivocally that no matter how open the mainland is, we must demand "safety, respect, and development."

Those in academic circles however suggest that the PRC has good reasons to emphasize opening up its domestic market: (1) By opening up its market to foreign and Taiwanese businesses, the PRC hopes to absorb more foreign and Taiwanese investments to fund its economic construction, so as to achieve its goal of accelerating the economic development. (2) The mainland tertiary industry's service sector is very backward. If they do not make

an effort to improve that sector, it will become a major obstacle to the mainland's further economic development, and so they have to make the necessary policy adjustment. (3) The PRC's state-run businesses have not been very successful; the government's financial burden is heavy, and it hopes to invigorate and revitalize its state-run enterprises with foreign investments and competition. In the past, the PRC authorities were indeed worried that opening up the domestic market would be a blow to its state-run enterprises. But despite prolonged state protection, things not only have not improved but have even gotten worse, and so it is hoped that by opening up, with foreign stimulation and competition, things will turn around. Moreover, the situation has developed to the point that opening up the domestic market is an inevitability; they cannot fight it. Another reason may be that they want to take the opportunity to do some publicity in hopes of being admitted to GATT as soon as possible. For these reasons, most scholars agree that the opening of the mainland market will greatly benefit Taiwan's economic development. If we fail to seize the opportunity now but let the Japanese and Korean get their foot in first and then try to catch up, it will be too late.

The government may not share the entrepreneurs' and the scholars' opinion about investing in the mainland, but it still understands very well that the trend cannot be reversed, and so it has accepted that increased investment in the mainland is inevitable. However, looking at the principles on lifting mainland investment restrictions drawn up by MOEA [Ministry of Economic and Affairs] and the Mainland Affairs Commission recently, they really have not solved the problem. For example, MOEA only wants to let polluting and energy-intensive industries invest in the mainland, and the Mainland Affairs Commission is even more absurd: It only wants to let industries that "will be of minimal use to the mainland" invest there. Unlike Taiwan 30 years ago, today's mainland does not accept any kind of foreign investment without conditions. It has already announced that it will not accept any industry that seriously pollutes the environment, and although it has ample energy resources, output still falls short of demand, and it does not welcome energy-intensive industries, and industries which contribute little to the mainland's future will be even less welcomed. To draw up these principles is like making a cart behind closed doors—they are blind and unrealistic. To let those groups make our bicoastal economic and trade policies is guaranteed to cause problems. We suggest that leaders of MOEA and the Mainland Affairs Commission invite representatives from industry and academic circles to openly and sincerely make a thorough study of today's bicoastal economic and trade policies, pool the wisdom of those in industry, government, and academic circles to come up with a set of forward-looking economic and trade policies which takes into consideration the overall interests of both sides, so that everybody can abide by those policies. Only in this way can all Chinese people benefit.

### Editorial Explores Causes of Inflation

92CE0541B Taipei CHING-CHI JIH-PAO in Chinese  
3 Jun 92 p 2

[Editorial entitled "Exploring the Causes of Inflation From Every Possible Angle"]

[Text] Recently the Legislative Yuan's Economics Committee held a special meeting to study the causes of inflation. Heads of five government departments—the Central Bank, MOEA, the Council of Public Transportation [0361 0074 2585?], the Council of Agriculture, and the Directorate General of Budget, Accounting and Statistics—were invited to participate.

According to reports, Central Bank's Chairman Hsieh suggested that the root causes of inflation are the lack of technological breakthroughs, failure to increase productivity, and excess money supply. MOEA's Vice Minister Chiang suggested that the root causes of inflation are supply-demand disequilibrium, excess money supply, soaring land prices and wages, higher prices in the international markets, and higher food prices. Chairman Wang of the Council of Public Transportation suggested that the causes of inflation are rising land prices and wages, excess money supply, poor transportation and marketing channels, and a general extravagant mood in society. The Council of Agriculture's Vice Chairman Tiju [Mau-Ying] [6726 5399 5391] suggested that inflation is caused by short-term fluctuations in agricultural product prices, higher wages which lead to higher agricultural production cost, and higher cost due to environmental protection expenditures. Chief of the Directorate General of Budget, Accounting and Statistics, Yu [Chien-Min] [0060 1696 3046], blamed inflation on increased purchasing power, conspicuous consumption, higher wages and interest and other costs, and a poor marketing system.

Besides the above five official points of view, a special report released after the meeting disclosed that Legislative Yuan members also pointed out that the government's increased public spending is also one of the main causes of inflation. If we add the media's regular analyses and commentaries of all types, it will not be an exaggeration to say that we are exploring the causes of inflation "from every possible angle."

What really is the cause of inflation? On the surface, it is hard to say what is the real cause, but actually, there is already a growing consensus. Take the opinions of the above five heads of government for instance. The most often-cited causes of inflation are increased money supply, higher land price and rent and other factors contributing to higher cost, and poor production and marketing channels. This kind of consensus possibly comes close to telling us the real cause of the high inflation rate at this stage.

Let us discuss the money supply first. We can examine this issue by posing a counterargument: Suppose excess money supply would not lead to inflation. If so, all of the

government's financial problems would be solved, and all of the civilian's sufferings would be banished. If the government spent more than it earned, it could simply print more money to cover the red ink; if the people were suffering because of low income, the government could print more money and spend it on welfare; it could print more money to remedy all the deficits incurred in the payments of social security, workers' insurance, farmers' insurance, and agricultural subsidies and so on. This does not sound like the real world; rather it sounds like an ideal world where there are unlimited resources.

This kind of utopia of course does not exist. In the long-run, the increase in money supply will lead to higher prices. There is no doubt about it. In fact, when debating about the price, it is very important that we distinguish between relative price and absolute price. In specific markets, prices may be higher because of seasonal fluctuation, or the weather, or international price fluctuation, or poor production and marketing channels, or because people are jacking up prices artificially. But basically these will only affect the relative price and not the absolute price. A sustained increase in the latter has to be backed by continuous increase in purchasing power, and the increase in overall purchasing power is very much attributable to increased money supply.

For this reason, there is little doubt that the bulk of the responsibility for maintaining long-term price stability lies with the Central Bank. This is not an original creation of ours. This is a world-wide concept. However, as pointed out in the Japanese news, when the Central Bank adopts a policy, it must not try to heal the head when it has a headache and cure the foot when the foot is in pain. Instead, it must have a regular goal and pursue steady growth in the money supply. The effects of monetary policies tend to lag behind. If we see rising inflation rate today and quickly tighten the economy and let down our guard as soon as the inflation rate falls, our monetary policy will only give impetus to price fluctuations. We should refrain from such practices.

The second cause of inflation cited above is higher rents and land prices. This is not a refutation of the money supply theory; in fact, it is the best footnote to the delayed effects of a monetary policy. Between 1987 and 1988, to stabilize the exchange rate, the Central Bank purchased large amounts of the U.S. dollar, dumping a large amount of NT [New Taiwan] dollars in the process; as a result, the rate of increase in the money supply at one time soared to 40-50 percent, causing a general price increase in stocks, real estate, and other assets. The rise in housing and land prices did not immediately trigger a rent increase, but in the last two to three years, the delayed effects have begun to show up. Real estate is an asset and its price is not a component of the price index, but rent actually is a component, and not only is rent directly figured into the price index as "rent," but it is also hid in the price of such items as food and beverages, clothing, daily essentials, transportation, education, and entertainment. So once its effects show up, they will have a major impact on the price index.

The third cause of inflation is poor production and marketing channels. This in itself is a "cost-push" factor. Its effects should mainly be one-time rather than recurring, partial rather than comprehensive. Usually it is not a major cause of a sustained rise in the average price index. However, a price increase caused by poor production and marketing channels or as a result of some people jacking up prices artificially will at least act as the fuse, and it is against the normal rules that enable the market to function properly and it works against the public good and therefore should be dealt with vigorously. Take agricultural products for instance. Between 1987 and 1992, the cumulative consumer price index has risen 18.03 percent [as published], with the price of fresh fruits and vegetables rising as much as 50.04 percent. Thus, relative to the other goods and services, the price of fresh fruits and vegetables has increased significantly. If the Council of Agriculture and the Council of Public Transportation would diligently examine the current agricultural product shipping and marketing channels and take appropriate steps to deal with any violation of the law,

we should be able to restore the price of agricultural products to the proper level. This will greatly facilitate the readjustment of the relative prices and the one-time lowering of the absolute prices.

Price is an important issue. Too many countries have paid dearly in social cost because of uncontrolled price increase. Examples are too numerous to mention individually. We must never be careless. The current price increase at above target rate has persisted for several months. The government should carefully consider setting up a trans-departmental and transcouncil group, led by the Council of Economic Planning and Development or the Central Bank and supplemented by other ministries and councils, to re-examine our current policies and take practical steps to prevent the increase in average prices from going out of control and also prevent individual prices from becoming volatile because of the unhealthy market. With this approach, we can turn the concerns originating from all points of the compass into a force to help us solve the inflation problem.

**Residents Concerned Most About Crime**

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[Text] Hong Kong, June 7 (XINHUA)—Problems relating to crime, housing and economy are on the top of a list of concerns of the Hong Kong people, according to a recent survey by the City and New Territories Administration (CNTA).

The 3,715-telephone call survey carried out between 18:00-22:00 hours from 9 to 13 March this year was based on a systematic random sample of residential telephone numbers contained in the current telephone directories.

The survey showed that 21 percent of the respondents said crime-related problems were of the most concern to Hong Kong people, 16 percent picked up housing-related problems and 16 percent more economy-related problems.

Issues mentioned by the less respondents as the most concerns included Hong Kong's future, personal tax allowance, labor importation and traffic congestion.

The survey indicated that 82 percent of those mentioning crime problems complained about too many

robberies or armed robberies, while 84 percent of those mentioning economic problems talked about inflation and high cost of living.

The percentage of people who were concerned about high rental and rental increase in public housing was 25 percent, according to the survey.

The survey indicated that more people has become confident in Hong Kong's future. Asked to suggest possible actions by the Hong Kong Government or the Hong Kong people to boost public confidence in the future, the respondents made following suggestions:

- The government should improve communication with the public, listen to the public views
- Develop the local economy and make Hong Kong stable and prosperous
- Maintain good relations with the Chinese Mainland and
- Improve welfare, educational and medical services.

It is likely that people in the lower income group may be under-represented in the telephone survey, as about 5 percent of households in Hong Kong haven't telephones. The CNTA said that the results of the survey is believed to have a sampling error of not more than plus or minus 2.5 percentage points.

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